Financial Statements

Deloitte.

Deloitte Auditing and Consulting Ltd.
H-1068 Budapest,
Dózsa György út 84/C, Hungary
H-1438 Budapest,
P.O.Box 471, Hungary

Phone: +36 (1) 428-6800
Fax: +36 (1) 428-6801
www.deloitte.hu

Registered by the Capital Court of Registration
Company Registration Number: 01-09-071057

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of OTP Bank Plc.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of OTP Bank Plc. (the "Bank") and its subsidiaries (the "Group") for the year 2018 which comprise the consolidated statement of financial position as at December 31, 2018 – which shows total assets of HUF 14,590,288 million –, the related consolidated statement of profit or loss and the consolidated statement of comprehensive income – which shows a net profit for the period of HUF 318,322 million –, consolidated statement of changes in equity, and the consolidated statement of cash-flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2018 and of its consolidated financial performance and its consolidated cash-flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (the "EU IFRS"), and the consolidated financial statements were prepared in all material respects in accordance with the provisions of the effective Hungarian Act C of 2000 on Accounting (the "Accounting Act") relevant to the entities preparing consolidated financial statements in accordance with EU IFRS.

Basis for Opinion

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

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

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

Key Audit Matters

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

Key audit matter	How our audit addressed the matter
Calculation of expected credit losses on corporate and retail loans	
(See notes 8., 24., and 28.1. to the consolidated financial statements for the details) As described in the notes to the consolidated financial statements, the impairment losses have been determined in accordance with IFRS 9 *Financial Instruments*, which is a new accounting standard which requires significant professional judgement to determine the expected credit losses ("ECLs"). At the year end, the Group reported total gross loans of HUF 8,751,957 million and provisions for impairment on loan losses of HUF 685,364 million. The determination of the ECL of loans is considered a key audit matter, as it requires application of professional judgement and use of subjective assumptions by management in case of both the application of portfolio based collective impairment models, and determination of individual specific loan loss provision. The most significant assumptions applied in determining the impairment are the following: - The interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Bank's expected credit loss model; - IFRS 9 credit risk staging methodology and application, including the identification of exposures with a significant deterioration in credit quality; - model used for impairment calculations reflecting the characteristics of the portfolio, such as valuation of collateral, probability of default and recovery rates, macroeconomic factors; - the application of assumptions, where there was limited or incomplete data; and - estimation of future cash-flows expected to be realized, including application of scenarios and scenario weights.	Our response as auditors included: - assessment and testing of the modelling techniques and methodology applied by the Group in order to estimate ECLs, and evaluation of its compliance with the requirements of IFRS 9; - evaluating the design and testing of the operating effectiveness of internal controls over timely identification of exposures with significant increase in credit risk, monitoring of credit impaired exposures, and calculating, and recording of loan loss provision; - assessing the collective model methodology and testing the calculations in terms of risk parameters (probability of default – PD, loss given default – LGD, expected credit loss – ECL, and macroeconomic factors) applied by the collective models including involving our specialists; - involving our actuarial and valuation experts to assist us in re-performing the calculation of the loss allowance and independently assessing the appropriateness of the assumptions used, the impairment methodologies and policies applied; - assessing on a sample basis, whether the staging and impairment triggers are captured appropriately and whether the estimation of the impairment is reasonable; - sample based testing of individual provision, including the assessment of valuation of collateral and estimation of expected future cash-flows, application of different scenarios and scenario weights and forming an independent view of the adequacy of the loss allowance; and - assessment of the accuracy of the disclosures in the financial statements.

2/5

Other Information

Other information comprises the information included in the section called "Management's Analysis" of the annual report and the consolidated business report of the Group which we obtained prior to the date of this auditor's report, and the sections called "Message to the shareholders", "Corporate Governance" and "Macroeconomic and financial environment in 2018" of the annual report, which is expected to be made available to us after that date, but does not include the consolidated financial statements and our independent auditor's report thereon. Management is responsible for the other information and for the preparation of the consolidated business report in accordance with the relevant provisions of the Accounting Act and other regulations. Our opinion on the consolidated financial statements provided in the section of our independent auditor's report entitled "Opinion" does not apply to the other information.

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

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

In our opinion, the consolidated business report of the Group for 2018 corresponds to the consolidated financial statements of the Group for 2018 and the relevant provisions of the Accounting Act in all material respects. The information referred to in Section 95/B. (2) a)-d), g) and h) of the Accounting Act has been provided and the consolidated business report contains the non-financial statement provided for in Section 134 (5).

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

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

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

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

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

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

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

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

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

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

We also:

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment of the Auditor and the Period of Engagement

We were appointed as the auditors of OTP Bank Plc. by the General Meeting of Shareholders on April 13, 2018 and our uninterrupted engagement has lasted for 26 years.

Consistence with the Additional Report to the Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of OTP Bank Plc., which we issued on March 8, 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

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

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

Budapest, March 18, 2019

....	....
Andrew Weekes	dr. Hruby Attila
Deloitte Auditing and Consulting Ltd.	Statutory registered auditor
1068 Budapest, Dózsa György út 84/C.	Registration number: 007118
Registration number: 000083	

5/5

Statement of financial position

(consolidated, based on IFRS, as at 31 December 2018, in HUF million)

	Note	2018	2017
Cash, amounts due from banks and balances with the National Banks	4	1,547,272	1,198,045
Placements with other banks, net of loss allowance for placements	5	420,606	462,180
Financial assets at fair value through profit or loss	6	181,356	344,417
Securities at fair value through other comprehensive income	7	1,883,849	2,174,718
Loans at amortized cost and at fair value	8	8,066,593	6,987,834
Associates and other investments	9	17,591	12,269
Securities at amortized cost	10	1,740,520	1,310,331
Property and equipment	11	253,773	237,321
Intangible assets and goodwill	11	166,711	176,069
Investment properties	12	38,115	35,385
Derivative financial assets designated as hedge accounting	13	15,201	10,277
Deferred tax assets	13	20,769	29,419
Other assets	13	237,932	211,963
TOTAL ASSETS		**14,590,288**	**13,190,228**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	14	392,706	472,068
Deposits from customers	15	11,285,085	10,233,471
Liabilities from issued securities	16	417,966	250,320
Derivative financial liabilities held for trading	17	73,316	69,874
Derivative financial liabilities designated as hedge accounting	18	7,407	17,199
Deferred tax liabilities	18	6,865	9,271
Other liabilities	18	498,857	421,942
Subordinated bonds and loans	19	81,429	76,028
TOTAL LIABILITIES		**12,763,631**	**11,550,173**
Share capital	20	28,000	28,000
Retained earnings and reserves	21	1,864,204	1,671,879
Treasury shares	22	(67,999)	(63,289)
Non-controlling interest	23	2,452	3,465
TOTAL SHAREHOLDERS' EQUITY		**1,826,657**	**1,640,055**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**14,590,288**	**13,190,228**

Budapest, 8 March 2019

The accompanying notes to consolidated financial statements on pages 94 to 186 form an integral part of these Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards.

Statement of profit or loss

(consolidated, based on IFRS, for the year ended 31 December 2018, in HUF million)

	Note	2018	2017
Interest Income			
Loans		576,053	521,121
Placements with other banks		72,401	42,686
Amounts due from banks and balances with the National Banks		421	1,444
Securities at fair value through other comprehensive income		37,912	34,442
Securities at amortized cost		59,899	56,343
Other		11,272	10,479
Total Interest Income		**757,958**	**666,515**
Interest Expense			
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks		(47,979)	(46,475)
Deposits from customers		(69,387)	(50,995)
Liabilities from issued securities		(6,343)	(5,727)
Subordinated bonds and loans		(2,169)	(2,259)
Other		(7,357)	(7,303)
Total Interest Expense		**(133,235)**	**(112,759)**
NET INTEREST INCOME		**624,723**	**553,756**
Loss allowance on loans and placements	8, 24	(39,287)	(40,848)
NET INTEREST INCOME AFTER LOSS ALLOWANCE ON LOAN AND PLACEMENTS		**585,436**	**512,908**
Income from fees and commissions	25	338,081	315,606
Expense from fees and commissions	25	(60,405)	(54,413)
Net profit from fees and commissions		**277,676**	**261,193**
Foreign exchange gains, net		40,615	21,870
Gains on securities, net		1,345	7,930
Gains on financial assets/liabilities measured at fair value through profit or loss		597	–
Dividend income		5,736	4,152
Release of loss allowance on securities at fair value through other comprehensive income and on securities at amortized cost		608	10
Other operating income	26	39,422	65,469
Other operating expense	26	(25,995)	(51,240)
Net operating gain		**62,328**	**48,191**
Personnel expenses	26	(251,041)	(213,886)
Depreciation and amortization	11	(51,475)	(48,988)
Goodwill impairment	11	(5,962)	(504)
Other administrative expenses	26	(264,803)	(236,072)
Other administrative expenses		**(573,281)**	**(499,450)**
PROFIT BEFORE INCOME TAX		**352,159**	**322,842**
Income tax expense	27	(33,837)	(41,503)
NET PROFIT FOR THE PERIOD		**318,322**	**281,339**
From this, attributable to:			
Non-controlling interest		**89**	**197**
Owners of the company		**318,233**	**281,142**
Consolidated earnings per share (in HUF)			
Basic	**37**	**1,215**	**1,074**
Diluted	**37**	**1,215**	**1,074**

Statement of comprehensive income

(consolidated, based on IFRS, for the year ended 31 December 2018, in HUF million)

	2018	2017
NET PROFIT FOR THE PERIOD	**318,322**	**281,339**
Items that may be reclassified subsequently to profit or loss		
Fair value adjustment of securities at fair value through other comprehensive income	(29,460)	15,677
Derivative financial instruments designated as cash-flow hedge	(9)	–
Net investment hedge in foreign operations	(3,253)	155
Foreign currency translation difference	10,007	(20,535)
Items that will not be reclassified subsequently to profit or loss		
Fair value changes of equity instruments at fair value through other comprehensive income	9,137	–
Change of actuarial costs related to employee benefits	(65)	(241)
Subtotal	**(13,643)**	**(4,944)**
NET COMPREHENSIVE INCOME	**304,679**	**276,395**
From this, attributable to:		
Non-controlling interest	(134)	173
Owners of the company	304,813	276,222

The accompanying notes to consolidated financial statements on pages 94 to 186 form an integral part of these Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards.

Statement of changes in equity

(consolidated, based on IFRS, for the year ended 31 December 2018, in HUF million)

	Note	Share capital	Capital reserve	Share-based payment reserve	Retained earnings and other reserves*	Option reserve	Treasury shares	Total attributable to share-holders'	Non-controlling interest	Total
Balance as at 1 January 2017		**28,000**	**52**	**28,237**	**1,476,657**	**(55,468)**	**(60,121)**	**1,417,357**	**3,292**	**1,420,649**
Net profit for the period		–	–	–	281,142	–	–	281,142	197	281,339
Other Comprehensive Income		–	–	–	(4,920)	–	–	(4,920)	(24)	(4,944)
Total comprehensive income		**–**	**–**	**–**	**276,222**	**–**	**–**	**276,222**	**173**	**276,395**
Share-based payment	31	–	–	3,598	–	–	–	3,598	–	3,598
Dividend for the year 2016		–	–	–	(53,200)	–	–	(53,200)	–	(53,200)
Sale of Treasury shares	22	–	–	–	–	–	10,342	10,342	–	10,342
Treasury shares – loss on sale		–	–	–	(2,839)	–	–	(2,839)	–	(2,839)
Treasury shares – acquisition	22	–	–	–	–	–	(13,510)	(13,510)	–	(13,510)
Payments to ICES holders	21	–	–	–	(1,380)	–	–	(1,380)	–	(1,380)
Balance as at 31 December 2017		**28,000**	**52**	**31,835**	**1,695,460**	**(55,468)**	**(63,289)**	**1,636,590**	**3,465**	**1,640,055**
Effect of transition due to IFRS 9 application		–	–	–	(51,475)	–	–	(51,475)	(127)	(51,602)
Balance as at 1 January 2018		**28,000**	**52**	**31,835**	**1,643,985**	**(55,468)**	**(63,289)**	**1,585,115**	**3,338**	**1,588,453**
Net profit for the period		–	–	–	318,233	–	–	318,233	89	318,322
Other Comprehensive Income		–	–	–	(13,420)	–	–	(13,420)	(223)	(13,643)
Total comprehensive income		**–**	**–**	**–**	**304,813**	**–**	**–**	**304,813**	**(134)**	**304,679**
Purchase of non-controlling interest		–	–	–	–	–	–	–	(752)	(752)
Share-based payment	31	–	–	3,797	–	–	–	3,797	–	3,797
Dividend for the year 2017		–	–	–	(61,320)	–	–	(61,320)	–	(61,320)
Correction due to MRP		–	–	–	156	–	–	156	–	156
Sale of Treasury shares	22	–	–	–	–	–	21,814	21,814	–	21,814
Treasury shares – loss on sale	22	–	–	–	(2,390)	–	–	(2,390)	–	(2,390)
Treasury shares – acquisition	22	–	–	–	–	–	(26,524)	(26,524)	–	(26,524)
Payments to ICES holders	21	–	–	–	(1,256)	–	–	(1,256)	–	(1,256)
Balance as at 31 December 2018		**28,000**	**52**	**35,632**	**1,883,988**	**(55,468)**	**(67,999)**	**1,824,205**	**2,452**	**1,826,657**

The accompanying notes to consolidated financial statements on pages 94 to 186 form an integral part of these Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards.

* 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.

Statement of cash-flows

(consolidated, based on IFRS, for the year ended 31 December 2018, in HUF million)

	Note	2018	2017
OPERATING ACTIVITIES			
Net profit for the period (attributable to the owners of the company)		**318,233**	**281,142**
Net accrued interest		(2,434)	28,916
Dividend income		(5,736)	(4,152)
Depreciation and amortization	11	51,475	48,988
Goodwill impairment	11	5,962	504
Release of loss allowance on securities	7, 10	(608)	(10)
Loss allowance on loans and placements	8, 24	39,287	40,848
Loss allowance on investments	9	1,232	184
Loss allowance/(Release of loss allowance)/on investment properties	12	244	(71)
Impairment on tangible and intangible assets		2,262	–
Loss allowance on other assets	13	944	8,213
(Release of provision)/Provision on off-balance sheet commitments and contingent liabilities	18	(1,841)	15,957
Share-based payment	2, 31	3,797	3,598
Unrealized losses on fair value change of securities held for trading		9,128	18,335
Unrealized (gains)/losses on fair value change of derivative financial instruments		(29,525)	11,966
Net changes in assets and liabilities in operating activities			
Net decrease/(increase) in financial assets at fair value through profit or loss	6	178,542	(89,786)
Net increase in loans at amortized cost before loss allowance for loans and in loans at fair value	8	(1,166,242)	(456,001)
Net increase in other assets before loss allowance	13	(26,857)	(10,680)
Net increase in deposits from customers	15	1,054,945	583,081
Net increase/(decrease) in other liabilities	18	101,877	(75,769)
Net (increase)/decrease in compulsory reserves at the National Banks	4	(329,936)	99,391
Income tax paid		(17,377)	(14,797)
Net Cash Provided by Operating Activities		**187,372**	**489,857**
INVESTING ACTIVITIES			
Net decrease in placement with other banks before loss allowance for placements	5	42,811	147,969
Purchase of securities at fair value through other comprehensive income	7	(1,644,093)	(955,382)
Proceeds from sale of securities at fair value through other comprehensive income	7	1,896,981	552,351
Net increase in investments in associates	9	(4,324)	(682)
Net (increase)/decrease in investments in other companies	9	(1,984)	8,762
Dividends received		5,490	3,739
Purchase of securities at amortized cost	10	(2,615,632)	(1,166,466)
Redemption of securities at amortized cost	10	2,188,898	971,786
Purchase of property, equipment and intangible assets	11	(104,199)	(131,028)
Proceeds from disposals of property, equipment and intangible assets	11	37,425	22,383
Net (increase)/decrease in investment properties before loss allowance	12	(2,974)	5,060
Net (increase)/decrease in advances for investments included in other assets	13	(21)	8
Net cash paid for acquisition	33	-	(128,588)
Net Cash Used in Investing Activities		**(201,622)**	**(670,088)**
FINANCING ACTIVITIES			
Net decrease in amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	14	(79,905)	(168,108)
Cash received from issuance of securities	16	224,413	184,636
Cash used for redemption of issued securities	16	(57,401)	(81,886)
Increase/(Decrease) in subordinated bonds and loans	19	5,733	(1,250)
Payments to ICES holders	21	(1,256)	(1,380)
Sale of Treasury shares	22	7,138	10,342
Purchase of Treasury shares	22	(14,238)	(16,349)
Dividends paid	21	(61,164)	(53,191)
Net Cash Provided by/(Used in) Financing Activities		**23,320**	**(127,186)**
Net increase/(decrease) in cash and cash equivalents		**9,070**	**(307,417)**
Cash and cash equivalents at the beginning of the period		**800,689**	**1,128,610**
Foreign currency translation		10,220	(20,504)
Cash and cash equivalents at the end of the period	4	**819,979**	**800,689**

The accompanying notes to consolidated financial statements on pages 94 to 186 form an integral part of these Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 1: ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS

1.1 General information

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

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

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

These Consolidated Financial Statements were approved by the Board of Directors and authorised for issue on 8 March 2019.

The structure of the Share capital by shareholders:

	2018	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 1,411 branches. The Group has operations in Hungary, Bulgaria, Russia, Ukraine, Croatia, Romania, Slovakia, Serbia and Montenegro.

The number of employees at the Group:

	2018	2017
The number of employees at the Group	41,128	41,514
The average number of employees at the Group	41,225	41,127

1.2 Basis of Accounting

These Consolidated Financial Statements were prepared based on the assumptions of the Management that the Bank will remain in business for the foreseeable future.
The Bank won't be forced to halt operations and liquidate its assets in the near term at what may be very low fire-sale prices.
The Entities of the Group maintain their accounting records and prepare their statutory accounts in accordance with the commercial, banking and fiscal regulations prevailing in Hungary and in case of foreign subsidiaries in accordance with the 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.

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).

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

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

At the date of authorization of these financial statements 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),
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

The Group has elected not to adopt these new standards and amendments to existing standards in advance of their effective dates. The Group anticipates that the adoption of these standards and amendments to existing standards would have no significant impact on the Group's consolidated financial statements in the period of initial application.

Implementation of IFRS 16

The published standard, IFRS 16 Leases, which is not in force as at 31 December 2018 and was not applied earlier by the Group. IFRS 16 will be effective for annual periods beginning on or after 1 January 2019 and has been adopted by the European Union. It supersedes the current standard IAS 17 Leases, interpretation IFRIC 4 Determining whether an Arrangement contains a Lease, SIC–15 Operating Leases – Incentives and SIC–27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The purpose of the new standard is to ease the comparability of the financial statements, presenting both finance and operating leases in the statement of financial position of the lessee, and providing corresponding information to the users of the financial statements about the risks associated with the agreements.

The new standard discontinues the differentiation between operating and finance leases in the lessee's books, and requires recognition of right-of-use asset and lease liability regarding all of the lessee's lease agreements.
Pursuant to IFRS 16, an agreement is a lease or contains a lease if it transfers the rights to control the use of an identified asset for a given period in exchange for compensation.

The essential element differentiating the definition of a lease from IAS 17 and from IFRS 16 is the requirement to have control over the used, specific asset, indicated directly or indirectly in the agreement.

Expenses related to the use of lease assets, the majority of which were previously recognised in external services costs, will be currently classified as depreciation/amortisation and interest costs. Usufruct rights are depreciated using a straight-line method, while lease liabilities are settled using an effective discount rate.
In the cash-flow statement cash-flows from the principal of the lease liability are classified as cash-flows from financing activities, while lease payments for short-term leases, lease payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability are classified as cash-flows from operating activities. The interest payments regarding the lease liability are classified according to IAS 7 Statement of Cash-flows.

The lessee applies IAS 36 Impairment of Assets to determine whether the right-of-use asset is impaired, and to recognise impairment, if it is necessary.

For the lessors the recognition and measurement requirements of IFRS 16 are similar, as they were stated in IAS 17. The leases shall be classified as finance and operating leases according to IFRS 16 as well. Compared to IAS 17, IFRS 16 requires the lessors to disclose more information than earlier, however the main characteristics of the accounting treatment are unchanged.

Transition

The Group will use the modified retrospective approach.
Applying the modified retrospective approach requires the lessee to present the cumulative impact of IFRS 16 as an adjustment to equity at the start of the current accounting period in which it is first applied so that comparative figures will not be restated.

The Group applies the following practical expedients available:

- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Adjust the right-of-use asset at the date of initial application by the amount of any provision for onerous leases in the statement of financial position.
- Apply a simplified method for contracts mature within 12 months for the date of initial application.
- Exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- Use hindsight such as in determining the lease term if the contract contains options to extend or terminate the lease.

Impact of IFRS 16 on the consolidated financial statements

IFRS 16 implementation (Project)

At the moment of preparation of these financial statements the Group had completed most of the work related to implementation of the new standard IFRS 16. The project to implement IFRS 16 (project), which was commenced in the fourth quarter of 2017, was performed in three stages:

Stage I:

Analysis of contracts, data collection

During the analysis of all executed agreements the classification was made, whether it is a purchase of services, or a lease. The analysis covered all the relevant agreements – so the Group has not applied the so called "grandfathering exemption" – according to IFRS 16.C3 despite their current classification and the assessment resulted in no different identification of the leases. Furthermore to calculate the value of the right-of-use assets and lease liabilities the collection of all the relevant information was performed.

The Group will present as at 1 January 2019 the following types of right-of-use assets in the statement of financial position:

- Office building
- Branch office
- Company car
- ATM space
- IT equipment

The average life of the lease (useful life of the presented right-of-use assets):

- Office building ~6 years
- Branch office ~5 years
- Company car ~3 years
- ATM space ~3 years
- IT equipment ~7 years

Stage II:

Evaluation of contracts, Calculations

In accordance with the application of IFRS 16 an analysis was prepared, which included:

- The effect on the statement of financial position at the date of initial application (1 January 2019)
- The effect of lease agreements recognized and measured in accordance with IFRS 16 on the statement of financial position and on the statement of profit or loss (including the future effects)

Applying a leasing calculation tool, the value of the right-of-use assets, lease liabilities and deferred tax were determined.

Stage III:

Implementation of IFRS 16 based on the developed concept, developing accounting policy and disclosures

Description of adjustments due to implementation of IFRS 16

a) Recognition of lease liabilities

Following the adoption of IFRS 16, the Group will recognise lease liabilities related to leases which were previously classified as "operating leases" in accordance with IAS 17 Leases. These liabilities will be measured at the present value of lease payments as at the date of commencement of the application of IFRS 16. Lease payments shall be discounted using the interest rate implicit in the lease or, if that rate can't be readily determined, the incremental borrowing rate. Interest rate applied by the Group: weighted average lessee's incremental borrowing rate: ~3.68%.

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

- fixed lease payments less any lease incentives,
- variable lease payments that depend on an index or a rate,
- amounts expected to be payable by the lessee under residual value guarantees,
- the exercise price of a purchase option, if it is reasonably certain that the option will be exercised, and
- payment of contractual penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The Group makes use of expedients with respect to short-term leases (less than 12 months) as well as in the case of leases for which the underlying asset is of low value (less than HUF 1.4 million) and for which agreements it will not recognise financial liabilities nor any respective right-of-use assets. These types of lease payments will be recognised as costs using the straight-line method during the life of the lease.

b) Recognition of right-of-use assets

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

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

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

c) Application of estimates

The implementation of IFRS 16 requires the making of certain estimates and calculations which effect the measurement of financial lease liabilities and of right-of-use assets. These include among others:

- determining which agreements are subject to IFRS 16,
- determining the lease term of such agreements (including for agreements with unspecified lives or which may be prolonged),
- determining the interest rates to be applied for the purpose of discounting future cash-flows,
- determining depreciation rates.

Impact on the statement of consolidated financial position

The impact of implementing IFRS 16 on the recognition of additional financial liabilities and respective right-of-use assets was estimated on the basis of agreements in force at the Group as at 31 December 2018.

The Group presents the following right-of-use assets in the statement of consolidated financial position as at 1 January 2019:

Estimated financial impact (in HUF million):

	1 January 2019
Right-of-use asset	46,975
Lease liability	46,677
Cumulative impact recognized as an adjustment to the equity at the date of initial application	–

The initial application would have also impact on the Consolidated Statement of Comprehensive Income and Consolidated Statement of Cash-flows however the estimated effect is considered as immaterial.

Average weighted amount of the implicit interest rate/incremental borrowing rate applied as at 1 January 2019 to recognize the lease liabilities: ~3.68%.

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

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

- **IFRS 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 3 "Business Combinations"** – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period),
- **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 1 "Presentation of Financial Statements"** and **IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** – Definition of Material (effective for annual periods beginning on or after 1 January 2020),
- **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 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.

According to the Group's estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement" would not significantly impact the consolidated financial statements, if applied as at the balance sheet date.

The adoption of the these new standards, amendments to the existing Standards and new 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 Bank as at the date of the Consolidated Financial Statements.

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

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

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.

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 34. 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 3 year period explicit cash-flow model serves as a basis for the impairment test by which the Group defines the impairment need on goodwill based on the strategic factors and financial data of its cash-generating units.

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

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

2.5 Securities at amortized cost

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. Securities at amortised cost are accounted for on a trade date basis.
Such securities comprise mainly securities issued by the Hungarian and foreign Governments and corporate bonds.

2.6 Financial assets at fair value through profit or loss

2.6.1 Securities held for trading

Investments in securities quoted on active market are accounted for on a trade date basis and are initially measured at fair value. Securities held for trading are measured at subsequent reporting dates at fair value. Unrealized gains and losses on held for trading securities are recognized in profit or loss and included in the Consolidated Statement of Profit or Loss for the period. The Group holds held for trading securities within the business model to obtain short-term gains Consequently 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, shares in investment funds, Hungarian and foreign government bonds, discounted 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 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

[1] First In First Out

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

Cross-currency interest rate swaps

The 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 hedging instruments in fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the Consolidated Statement of Profit or Loss along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. Changes in the fair value of hedging instrument in fair value hedges is charged directly to the Consolidated Statement of Profit or Loss.
The conditions of hedge accounting applied by the Bank are the following: formally designated as hedge relationship, proper hedge documentation is prepared, effectiveness test is performed and based on it the hedge is qualified as effective.
The Group implemented hedge accounting rules prescribed by IFRS 9 in 2018.

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

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

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

rules for classification, recognition and measurement of financial assets are applicable for the whole contract.

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 trade date basis and are initially measured at fair value. Securities at fair value through other comprehensive income are measured at subsequent reporting dates at fair value. Unrealized gains and losses on securities at fair value through other comprehensive income are recognized directly in Other Comprehensive Income, except for interest and foreign exchange gains/losses on monetary items, unless such financial asset at fair value through other comprehensive income is part of an effective hedge. Such gains and losses will be reported when realized in Consolidated Statement of Profit or Loss for the applicable period. The Group applies the FIFO inventory valuation method for securities at fair value through other comprehensive income.
Such securities consist of Hungarian and foreign government bonds, corporate bonds, mortgage bonds, discounted Treasury bills and other securities.
The Group has elected to present in the Statement of Other Comprehensive Income changes of fair value of those equity instruments which are neither held for trading nor recognised under IFRS 3.
The loss allowance is calculated based on discounted cash-flow methodology for debt instruments and calculated based on fair value on equity instruments, using the expected future cash-flow and original effective interest rate if there is objective evidence of loss allowance based on significant or prolonged decrease on fair value.
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.
In some cases the Group made an irrevocable election at initial recognition for certain equity instruments to present subsequent changes in fair value of these securities in the consolidated other comprehensive income instead of in profit or loss.

2.11 Loans, placements with other banks and loss allowance for loan and placements

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. When a financial asset is derecognised the difference of the carrying amount and the consideration received is recognised in the profit or loss. When a financial asset is derecognised the difference of the carrying amount and the consideration received is recognised in the profit or loss. When the contractual cash-flows of a financial asset are modified and the modification does not result in the derecognition of the financial asset the Bank recalculate the gross carrying amount of the financial asset by discounting the expected future cash-flows with the original effective interest rate of the asset. The difference between the carrying amount and the present value of the expected cash-flows is recognised as a modification gain or loss in the profit or loss.
Interest and amortised cost are accounted using effective interest rate method. When a borrower is unable to meet payments as they fall due or, in the opinion of the Management, there is an indication that a borrower may be unable to meet payments as they fall due, all unpaid penalty interest becomes impaired.

Initially 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 loss allowance is the difference between the gross 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.

Loss allowance for loans and placements with other banks represent Management assessment for potential losses in relation to these activities. Loss allowance for 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 loss allowance 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) loss allowance is recognised in amount of lifetime expected credit loss.
In case of purchased or originated credit impaired financial assets loss allowance is recognised in amount of lifetime expected credit loss since initial recognition. Impairment gain is recognised if lifetime expected credit loss for purchased or originated credit impaired financial assets at measurement date are less than the estimated credit loss at initial recognition.

The allowances for loan and placement losses are determined to cover losses that have been specifically identified. Collective impairment losses of portfolios of loans, for which no objective evidence of loss allowance has been identified on an individual basis, are determined to reduce the carrying amount of the portfolios of financial assets with similar credit risk characteristics to their estimated recoverable amounts at the balance sheet date. The expected cash-flows for portfolios of similar assets are estimated based on historical loss experience. Historical loss experience is the basis for calculating the expected loss, which is adjusted by the loss confirmation period, which represents the average time lag between occurrence of a loss event and confirmation of the loss. This concept enables recognition of those losses that have occurred in the portfolio at the balance sheet date.

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

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 loss allowance account. As a result of the reversal the carrying amount shall not exceed the amortised cost, which would be at the date of reversal, if no loss allowance had been made previously.
If a financial asset, which previously classified in the first stage, classified subsequently in the second or third stage than loss allowance is adjusted to lifetime expected credit loss.
If a financial asset, which previously classified in the second or third stages, classified subsequently in the first stage than loss allowance is adjusted to level of 12 month expected credit.

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote. The loan is written off against the related account "Loss allowance on loans and placements" 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 matured 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.

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

2.16 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 changed 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. The time-proportional interest income of derivative financial instruments is calculated without using the effective interest method and the positive fair value adjustment of interest rate swaps are also included in interest income. 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 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.

2.20 Fees and Commissions

Fees and commissions are recognized using the effective interest method referring to loss allowances 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 (see more details in Note 25).

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

The Group recognizes provision 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.

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 have been 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 and IFRS 15 standards.

These consolidated financial statements are prepared in accordance with the same accounting policies in all respects as the authorised consolidated financial statements prepared in accordance with IFRS as adopted by the EU for the year ended 31 December 2017, which were approved on 13 March 2018, excluding initial application of IFRS 9 and IFRS 15 standard.

These consolidated financial statements are prepared in accordance with the same accounting policies in all respects as the authorised consolidated financial statements prepared in accordance with IFRS as adopted by the EU for the year ended 31 December 2017, which were approved on 13 March 2018, excluding initial application of IFRS 9 and IFRS 15 standard.

IFRS 9

The Management has decided to present comparative figures in accordance with IAS 39 standard. The Group applied the retrospective method.

Classifications by IAS 39	Classifications by IFRS 9	Opening balance according to IAS 39 as at 31 Dec. 2017	Reclassification	Remeasurement due to loss	
				Stage 1	Stage 2
Placements with other banks	**Placements with other banks**	**462,180**	**–**	**(269)**	**–**
Held for trading securities	Held for trading securities at fair value through profit or loss	259,263	(3,579)	–	–
	Securities mandatorily at fair value through profit or loss	–	29,206	–	–
Available for sale securities	Securities at fair value through other comprehensive income	2,174,718	(34,399)	(2,885)	–
Securities held-to-maturity	Securities at amortized cost	1,310,331	8,933	(2,256)	–
Securities total	**Securities total**	**3,744,312**	**161**	**(5,141)**	**–**
Loans at amortized cost	Loans at amortized cost	6,987,834	(21,844)	(9,436)	(20,265)
	Loans at fair value	–	23,251	–	–
Loans total	**Loans total**	**6,987,834**	**1,407**	**(9,436)**	**(20,265)**
Amounts due to banks	Amounts due to banks	472,068	(20,011)	–	–
	Financial liabilities at fair value through profit or loss	–	21,476	–	–
	Liabilities total	**472,068**	**1,465**	**–**	**–**
Provision for loan commitments and financial guarantees	Provision for loan commitments and financial guarantees	15,356	–	1,816	1,181

IFRS 15

Initial application of IFRS 15 has no significant effect on the Group's consolidated financial statements.

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

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

3.1 Loss allowances on financial instruments

The Group regularly assesses its financial instruments portfolio for loss allowance. Management determines the adequacy of the loss allowances based upon reviews of individual loans and placements, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors.
The use of 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 (see more details in Note 28.1.1).

3.2 Valuation of instruments without direct quotations

Financial instruments without direct quotations in an active market are valued using the valuation model technique. The models are

* Stage 3 includes POCI category too.

allowance Stage 3*	Opening balance according to IFRS 9 as at 1 Jan. 2018
–	461,911
–	255,684
–	29,206
–	2,137,434
(5)	1,317,003
(5)	3,739,327
(19,674)	6,916,615
–	23,251
(19,674)	6,939,866
–	452,057
–	21,476
–	473,533
1,967	20,320

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.

3.5 Business model

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

Business model whose objective is to hold financial assets in order to collect contractual cash-flows. Within this business model the Group manages mainly loans and advances and long-term securities and other financial assets.

Business model whose objective is achieved by both collecting contractual cash-flows and selling financial assets. Within this business model the Group only manages securities.

Business model whose objective is to achieve gains in a short-term period. Within this business model the Group manages securities and derivative financial instrument.

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

	2018	2017
Cash on hand		
In HUF	172,176	95,113
In foreign currency	233,198	199,102
	405,374	**294,215**
Amounts due from banks and balances with the National Banks		
Within one year:		
In HUF	58,654	208,200
In foreign currency	1,083,192	695,475
	1,141,846	**903,675**
Over one year:		
In HUF	–	–
In foreign currency	–	–
	–	**–**
Accrued interest	52	155
Total	**1,547,272**	**1,198,045**
Compulsory reserve set by the National Banks*	(727,293)	(397,356)
Cash and cash equivalents	**819,979**	**800,689**

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

	2018	2017
Within one year:		
In HUF	43,961	51,447
In foreign currency	290,455	357,849
	334,416	**409,296**
Over one year:		
In HUF	80,459	52,410
In foreign currency	4,416	380
	84,875	**52,790**
Accrued interest	1,812	162
Loss allowance on placements	(497)	(68)
Total	**420,606**	**462,180**

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

	2018	2017
Balance as at 1 January	**68**	**95**
Effect of transition due to IFRS 9 application	269	–
Loss allowance for the period	2,879	53
Release of loss allowance for the period	(2,683)	(77)
Reclassification	(105)	–
Foreign currency translation difference	69	(3)
Closing balance	**497**	**68**

Interest conditions of placements with other banks:

	2018	2017
In HUF	(1.0)%–3.84%	(0.5)%–3.84%
In foreign currency	(2.28)%–13.69%	(20.0)%–14.9%
Average interest rates on placements with other banks	**1.62%**	**0.98%**

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

Securities held for trading:

	2018	2017
Government bonds	34,083	113,572
Shares and investment bonds	8,241	11,169
Discounted Treasury bills	1,059	1,169
Interest bearing treasury bills	-	93,806
Other securities	2,164	34,631
Other non-interest-bearing securities	4,505	1,248
	50,052	**255,595**
Accrued interest	387	3,668
	50,439	**259,263**
Non-trading securities mandatorily at fair value through profit or loss	**27,512**	**–**
Total	**77,951**	**259,263**

Positive fair value of derivative financial assets held for trading:

	2018	2017
Interest rate swaps held for trading	44,120	33,377
Foreign exchange swaps held for trading	31,994	18,047
CCIRS and mark-to-market CCIRS* held for trading	12,417	16,976
Foreign exchange forward contracts held for trading	2,502	4,998
Other derivative transactions held for trading	12,372	11,756
	103,405	**85,154**
Total	**181,356**	**344,417**

An analysis of securities held for trading portfolio by currency:

	2018	2017
Denominated in HUF	30.1%	67.3%
Denominated in foreign currency	69.9%	32.7%
Total	**100.0%**	**100.0%**

An analysis of government bond portfolio by currency:

	2018	2017
Denominated in HUF (%)	19.7%	55.0%
Denominated in foreign currency (%)	80.3%	45.0%
Total	**100.0%**	**100.0%**
Interest rates on securities held for trading	0.01%–7.5%	0.01%–9.25%
Average interest rates on securities held for trading	**2.25%**	**2.20%**

* CCIRS: Cross Currency Interest Rate Swaps (see Note 2.6.2).

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

	2018	2017
Within one year:		
With variable interest	2,039	2,991
With fixed interest	8,632	136,194
	10,671	**139,185**
Over one year:		
With variable interest	2,198	14,214
With fixed interest	24,437	89,779
	26,635	**103,993**
Non-interest-bearing securities	12,746	12,417
Total	**50,052**	**255,595**

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

	2018	2017*
Securities at fair value through other comprehensive income		
Government bonds	1,357,248	1,703,665
Discounted Treasury bills	331,880	223,238
Mortgage bonds	81,823	–
Corporate bonds	61,421	174,742
From this:		
Listed securities:		
In HUF	–	84,048
In foreign currency	37,113	49,737
	37,113	**133,785**
Non-listed securities:		
In HUF	22,885	32,598
In foreign currency	1,423	8,359
	24,308	**40,957**
Other securities	–	545
Subtotal	**1,832,372**	**2,102,190**
Non-trading equity instruments measured at fair value through other comprehensive incomes		
Listed securities:		
In HUF	–	1,472
In foreign currency	5,358	76
	5,538	**1,548**
Non-listed securities:		
In HUF	576	19,419
In foreign currency	24,729	29,186
	25,305	**48,605**
Subtotal	**30,663**	**50,153**
Accrued interest	20,814	22,745
Loss allowance on securities at fair value through other comprehensive income	–	(370)
Securities at fair value through other comprehensive income/Available-for-sale securities	**1,883,849**	**2,174,718**

* Comparative figures in the prior separate financial statements were presented as available-for-sale securities. For details see Note 2.27.

An analysis of securities at fair value through other comprehensive income/available-for-sale by currency:

	2018	2017
Denominated in HUF	57.8%	61.7%
Denominated in foreign currency	42.2%	38.3%
Total	**100.0%**	**100.0%**

An analysis of government bonds by currency:

	2018	2017
Denominated in HUF	54.3%	61.4%
Denominated in foreign currency	45.7%	38.6%
Total	**100.0%**	**100.0%**

	2018	2017
Interest rates on securities at fair value through other comprehensive income/available-for-sale denominated in HUF	0.01%–7.5%	0.01%–7.5%
Interest rates on securities at fair value through other comprehensive income/available-for-sale denominated in foreign currency	0.3%–20.4%	(0.25)%–18.2%
Average interest rates securities at fair value through other comprehensive income/available-for-sale denominated in HUF	1.69%	1.56%
Average interest rates on securities at fair value through other comprehensive income/available-for-sale denominated in foreign currency	2.29%	2.63%

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

	2018	2017
Within one year:		
With variable interest	12,300	756
With fixed interest	636,644	615,554
	648,944	**616,310**
Over one year:		
With variable interest	101,829	75,651
With fixed interest	1,081,599	1,410,229
	1,183,428	**1,485,880**
Non-interest-bearing securities	30,663	50,153
Total	**1,863,035**	**2,152,343**

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

	2018	2017
Balance as at 1 January	**370**	**305**
Effect of transition due to IFRS 9 application	(370)	–
Loss allowance for the period	–	4
Release of loss allowance	–	(11)
Use of loss allowance	–	–
Reclassification from equity investments	–	96
Foreign currency translation difference	–	(24)
Closing balance	**–**	**370**

Certain securities are hedged against interest rate risk (see Note 28.4).

During 2018 the Group didn't sell any of equity instruments designated at fair value through other comprehensive income.

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

	2018	2017
Short-term loans and promissory notes (within one year)	2,517,071	2,628,507
Long-term loans and promissory notes (over one year)	6,200,361	5,098,123
	8,717,432	**7,726,630**
Loss allowance on loans	(685,364)	(738,796)
Loans measured at amortized cost	**8,032,068**	**6,987,834**
Non-trading loans at fair value through profit or loss with market risk value adjustment	36,341	–
Accumulated negative changes in fair value due to credit risk	(1,816)	–
Loans measured at fair value through profit or loss	**34,525**	**–**
Total loans at amortized cost and at fair value	**8,066,593**	**6,987,834**

An analysis of the gross loan portfolio by currency:

	2018	2017
In HUF	34%	34%
In foreign currency	66%	66%
Total	**100%**	**100%**

Interest rates of the loan portfolio are as follows:

	2018	2017
Short-term loans denominated in HUF	0.0%–37.45%	0.0%–37.45%
Long-term loans denominated in HUF	0.01%–38.98%	0.0%–37.5%
Short-term loans denominated in foreign currency	(0.64)%–90.0%	(0.67)%–59.9%
Long-term loans denominated in foreign currency	(0.64)%–90.0%	(0.67)%–59.0%
Average interest rates on loans denominated in HUF	6.87%	7.55%
Average interest rates on loans denominated in foreign currency	7.05%	7.66%

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

	2018	2017
Balance as at 1 January	**738,796**	**944,273**
Effect of transition due to IFRS 9 application	47,626	–
Loss allowance for the period	460,340	413,011
Release of loss allowance	(271,375)	(351,214)
Use of loss allowance	(126,747)	(105,734)
Portional write-off	(126,906)	(57,082)
Increase due to acquisition	–	6,917
Reclassification	26	(1,397)
Partial write-off*	(42,998)	(76,947)
Foreign currency translation difference	6,602	(33,031)
Closing balance	**685,364**	**738,796**

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

	2018	2017
Loss allowance on placements and gains from write-off and sale of placements	144	228
Loss allowance on loans and gains from write-off and sale of loans	49,923	40,620
Total	**50,067**	**40,848**

* See details in Note 2.11.

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

	2018	2017
Investments		
Investments in associates (non-listed)	11,904	7,335
Other investments (non-listed) at cost	11,279	9,338
	23,183	**16,673**
Loss allowance on investments	(5,592)	(4,404)
Total	**17,591**	**12,269**

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

	2018	2017
Balance as at 1 January	**4,404**	**4,330**
Loss allowance for the period	1.232	184
Use of loss allowance	–	(13)
Reclassification to securities at fair value through other comprehensive income	(41)	(96)
Foreign currency translation difference	(3)	(1)
Closing balance	**5,592**	**4,404**

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

	2018	2017
Government bonds	1,709,343	1,290,630
Corporate bonds	10,068	6
Discounted Treasury bills	–	30
	1,719,411	**1,290,666**
Accrued interest	24,048	20,381
Loss allowance on securities at amortized cost	(2,939)	(716)
Total	**1,740,520**	**1,310,331**

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

	2018	2017
Within one year:		
With variable interest	–	270
With fixed interest	156,552	105,251
	156,552	**105,521**
Over one year:		
With variable interest	–	–
With fixed interest	1,562,859	1,185,145
	1,562,859	**1,185,145**
Total	**1,719,411**	**1,290,666**

An analysis of securities at amortized cost by currency:

	2018	2017
Denominated in HUF	93.1%	91.8%
Denominated in foreign currency	6.9%	8.2%
Total	**100.0%**	**100.0%**

	2018	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%–18.0%	1.39%–14.5%
Average interest rates on securities at amortized cost	3.98%	4.72%

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

	2018	2017
Balance as at 1 January	**716**	**800**
Effect of transition due to IFRS 9 application	2,014	–
Loss allowance for the period	995	15
Release of loss allowance	(783)	(18)
Use of loss allowance	(46)	(93)
Foreign currency translation difference	43	12
Closing balance	**2,939**	**716**

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

For the year ended 31 December 2018:

	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Total
Cost					
Balance as at 1 January	**302,057**	**226,513**	**174,585**	**20,033**	**723,188**
Additions	42,443	30,452	33,878	46,009	152,782
Foreign currency translation differences	(3,210)	3,403	1,200	321	1,714
Disposals	(18,030)	(20,733)	(14,660)	(43,483)	(96,906)
Change in consolidation scope	9	4	37	1	51
Balance as at 31 December	**323,269**	**239,639**	**195,040**	**22,881**	**780,829**
Depreciation and Amortization					
Balance as at 1 January	**125,988**	**58,146**	**125,664**	**–**	**309,798**
Charge for the period (without goodwill impairment)	27,245	7,080	17,150	–	51,475
Goodwill impairment	5,962	–	–	–	5,962
Foreign currency translation differences	732	5,229	854	–	6,815
Disposals	(5,577)	(2,233)	(8,187)	–	(15,997)
Change in consolidation scope	8	1	22	–	31
Impairment	**2,200**	**28**	**33**	**–**	**2,261**
Balance as at 31 December	**156,558**	**68,251**	**135,536**	**–**	**360,345**
Carrying value					
Balance as at 1 January	**176,069**	**168,367**	**48,921**	**20,033**	**413,390**
Balance as at 31 December	**166,711**	**171,388**	**59,504**	**22,881**	**420,484**

An analysis of the intangible assets for the year ended 31 December 2018 is as follows:

	Self-developed	Other	Total
Intangible assets			
Gross values	5,924	219,617	**225,541**
Depreciation and amortization	1,975	148,621	**150,596**
Carrying value	3,949	70,996	**74,945**

An analysis of the changes in the goodwill for the year ended 31 December 2018 is as follows:

	Goodwill
Gross balance as at 1 January	**101,489**
Additions	–
Foreign currency translation difference	(3,761)
Disposals	–
Balance as at 31 December	**97,728**
Impairment as at 1 January	**513**
Additions	5,962
Foreign currency translation difference	–
Disposals	(513)
Balance as at 31 December	**5,962**
Carrying value	
Balance as at 1 January	**100,976**
Balance as at 31 December	**91,766**

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

List of units	HUF mn
JSC "OTP Bank" (Russia)	38,048
DSK Bank EAD	28,541
OTP banka Hrvatska d.d.	18,664
OTP Bank Romania S.A.	6,388
Other*	125
Total	**91,766**

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 31 December 2018 impairment test was prepared where a three-year cash-flow model was applied with an explicit period between 2019–2021. The basis for the estimation was the financial actual figures for November 2018, 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 the prepared medium-term 2019–2021) forecasts. When the Bank prepared the calculations for the period 2019–2021, 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

* Other category includes: Nimo 2002 Ltd., POK DSK-Rodina a.d.

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 year ended 31 December 2018

Based on the valuations of the subsidiaries as at 31 December 2018 HUF 229 million goodwill impairment for OTP Real Estate Lease Ltd. and HUF 5,733 million for Monicomp Ltd. were needed to book on Group level.

For the year ended 31 December 2017:

	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Total
Cost					
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					
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:

	Self-developed	Other	Total
Intangible assets			
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
Gross balance as at 1 January	**104,282**
Additions	–
Foreign currency translation difference	(2,793)
Disposals	–
Balance as at 31 December	**101,489**
Impairment as at 1 January	**–**
Additions	504
Foreign currency translation difference	9
Disposals	–
Balance as at 31 December	**513**
Carrying value	
Balance as at 1 January	**104,282**
Balance as at 31 December	**100,976**

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.	5,733
Other*	354
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:

	2018	2017
Gross values		
Balance as at 1 January	**50,887**	**44,847**
Increase due to transfer from inventories or owner-occupied properties	11,249	5,879
Increase due to transfer from held-for-sale properties	649	44
Increase from purchase	553	660
Additions due to acquisition	–	3,394
Other additions	1,522	309
Disposal due to transfer to held-for-sale properties	(440)	(137)
Disposal due to transfer to inventories or owner-occupied properties	(4,140)	(1,104)
Disposal due to sale	(12,477)	(1,638)
Other disposal	(1)	(945)
Foreign currency translation difference	1,454	(422)
Closing balance	**49,256**	**50,887**

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

The applied depreciation and amortization keys were the following:

	2018	2017
Depreciation and amortization key	1%–50.0%	1%–46.2%

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

	2018	2017
Depreciation and amortization		
Balance as at 1 January	**7,422**	**5,408**
Charge for the period	761	781
Additions due to transfer from inventories or owner-occupied properties	–	18
Other increase for the period	–	1,410
Disposal due to sale	(422)	–
Disposal due to transfer to inventories or owner-occupied properties	(801)	(137)
Other disposal for the period	(52)	(62)
Foreign currency translation difference	231	4
Closing balance	**7,139**	**7,422**

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

	2018	2017
Impairment		
Balance as at 1 January	**8,080**	**9,993**
Impairment for the period	451	298
Release of impairment for the period	(207)	(369)
Use of impairment	(4,593)	(1,789)
Foreign currency translation difference	271	(53)
Closing balance	**4,002**	**8,080**
Carrying values		
Balance as at 1 January	**35,385**	**29,446**
Balance as at 31 December	**38,115**	**35,385**
Fair values	**44,616**	**40,258**
Income and expenses		
Rental income	2,945	2,038
Direct operating expenses of investment properties – income generating	75	104
Direct operating expenses of investment properties – non income generating	9	8

NOTE 13: OTHER ASSETS* (in HUF mn)

	2018	2017
Inventories	59,146	60,998
Receivables from card operations	49,265	29,982
Prepayments and accrued income	34,245	32,674
Assets subject to operating lease	23,378	27,798
Current income tax receivable	14,258	14,281
Stock exchange deals	12,092	1,664
Trade receivables	11,821	10,710
Other advances	10,197	10,623
Receivables from investment services	6,985	3,273
Settlement and suspense accounts	4,953	2,330
Giro clearing accounts	4,652	5,699
Due from Hungarian Government from interest subsidies	4,380	4,170
Receivables from leasing activities	1,609	2,096
Receivable from the National Asset Management	1,487	3,130
Receivables due from pension funds and investment funds	989	6,574
Advances for securities and investments	679	658
Other receivables from Hungarian Government	76	115
Loans sold under deferred payment scheme	–	137
Other	25,323	23,646
Subtotal	**265,535**	**240,558**
Loss allowance on other assets**	(27,603)	(28,595)
Subtotal	**237,932**	**211,963**
Fair value of derivative financial assets designated as hedge accounting relationhip	15,201	10,277
Deferred tax assets***	20,769	29,419
Subtotal	**35,970**	**39,696**
Total	**273,902**	**251,659**

Positive fair value of derivative financial assets designated as fair value and as cash-flow hedge:

	2018	2017
Interest rate swaps designated as fair value hedge	5,610	6,639
CCIRS and mark-to-market CCIRS designated as fair value hedge	4,003	3,638
Interest rate swaps designated as cash-flow hedge	3,751	–
MIRS**** designated as cash-flow hedge	1,837	–
Total	**15,201**	**10,277**

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

	2018	2017
Balance as at 1 January	**28,595**	**28,073**
Effect of transition due to IFRS 9 application	(218)	–
Loss allowance for the period	(47)	5,674
Use of loss allowance	(1,107)	(6,599)
Reclassification	79	1,677
Foreign currency translation difference	301	(230)
Closing balance	**27,603**	**28,595**

* 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.

** Loss allowances mostly relates for inventories, held-for-sale properties and prepayments and accrued income.

*** See Note 27.

**** Monetary policy interest rate swaps.

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

	2018	2017
Within one year:		
In HUF	50,887	80,188
In foreign currency	127,394	115,852
	178,281	**196,040**
Over one year:		
In HUF	124,512	187,062
In foreign currency	56,406	87,988
	180,918	**275,050**
Accrued interest	1,276	978
	360,475	**472,068**
Financial liabilities at fair value through profit or loss		
Within one year in HUF	3,321	–
Over one year in HUF	28,809	–
	32,130	**–**
Accrued interest	101	–
	32,231	**–**
Total	**392,706**	**472,068**

A reconciliation of the carrying amount of financial liabilities designated as fair value through profit or loss is as follows:

	2018	2017
Contractual amount	30,810	–
Fair value adjustment due to market risk	1,321	–
Carrying amount	**32,231**	**–**

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

	2018	2017
Within one year:		
In HUF	(15.0)%–2.67%	(18.0)%–0.9%
In foreign currency	(0.8)%–21.5%	(0.6)%–7.2%
Over one year:		
In HUF	0.0%–2.67%	0.0%–3.8%
In foreign currency	0.0%–21.5%	(0.27)%–16.3%
Average interest rates on amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks denominated in HUF	2.21%	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	1.71%	1.79%

NOTE 15: DEPOSITS FROM CUSTOMERS (in HUF mn)

	2018	2017
Within one year:		
In HUF	4,890,623	4,314,972
In foreign currency	6,092,428	5,568,663
	10,983,051	**9,883,635**
Over one year:		
In HUF	251,723	215,869
In foreign currency	38,967	119,292
	290,690	**335,161**
Accrued interest	11,344	14,675
Total	**11,285,085**	**10,233,471**

Interest rates on deposits from customers are as follows:

	2018	2017
Within one year:		
In HUF	(5.11)%–9.69%	(5.0)%–9.69%
In foreign currency	(0.42)%–23.0%	(0.4)%–30.0%
Over one year:		
In HUF	0.0%–9.96%	0.0%–10.10%
In foreign currency	0.0%–17.57%	0.0%–16.0%
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	0.75%	0.80%

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

	2018		2017	
Retail deposits	6,829,172	61%	6,106,809	60%
Corporate deposits	3,863,176	34%	3,487,198	34%
Municipality deposits	581,393	5%	624,789	6%
Total	**11,273,741**	**100%**	**10,218,796**	**100%**

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

	2018	2017
With original maturity		
Within one year:		
In HUF	46,506	12,098
In foreign currency	5,049	7,064
	51,555	**19,162**
Over one year:		
In HUF	362,856	228,015
In foreign currency	88	310
	362,944	**228,325**
Accrued interest	3,467	2,833
Total	**417,966**	**250,320**

Interest rates on liabilities from issued securities are as follows:

	2018	2017
Issued securities denominated in HUF	0.2%–9.48%	0.2%–9.48%
Issued securities denominated in foreign currency	0.6%–7.0%	0.0%–8.1%
Average interest rates on issued securities denominated in HUF	2.33%	3.23%
Average interest rates on issued securities denominated in foreign currency	1.66%	0.55%

Issued securities denominated in HUF as at 31 December 2018:

	Name	Date of issue	Maturity	Nominal value (in HUF mn)	Interest conditions (actual interest rate in % p.a.)		Hedged
1	OTP 2019/Ax	25/06/2009	01/07/2019	211	indexed	NaN	hedged
2	OTP 2019/Bx	05/10/2009	14/10/2019	286	indexed	NaN	hedged
3	OTP 2019/Cx	14/12/2009	20/12/2019	238	indexed	NaN	hedged
4	OTP 2019/Dx	22/03/2013	21/03/2019	3,470	indexed	NaN	hedged
5	OTP 2019/Ex	28/06/2013	24/06/2019	2,812	indexed	0.60	hedged
6	OTP 2020/Ax	25/03/2010	30/03/2020	251	indexed	NaN	hedged
7	OTP 2020/Bx	28/06/2010	09/07/2020	267	indexed	NaN	hedged
8	OTP 2020/Cx	11/11/2010	05/11/2020	176	indexed	NaN	hedged
9	OTP 2020/Dx	16/12/2010	18/12/2020	177	indexed	NaN	hedged
10	OTP 2020/Ex	18/06/2014	22/06/2020	3,268	indexed	0.70	hedged
11	OTP 2020/Fx	10/10/2014	16/10/2020	2,867	indexed	0.20	hedged
12	OTP 2020/Gx	15/12/2014	21/12/2020	2,493	indexed	0.30	hedged
13	OTP 2021/Ax	01/04/2011	01/04/2021	235	indexed	NaN	hedged
14	OTP 2021/Bx	17/06/2011	21/06/2021	264	indexed	NaN	hedged
15	OTP 2021/Cx	19/09/2011	24/09/2021	241	indexed	NaN	hedged
16	OTP 2021/Dx	21/12/2011	27/12/2021	285	indexed	NaN	hedged
17	OTP 2022/Ax	22/03/2012	23/03/2022	229	indexed	NaN	hedged
18	OTP 2022/Bx	18/07/2012	18/07/2022	201	indexed	1.70	hedged
19	OTP 2022/Cx	29/10/2012	28/10/2022	227	indexed	1.70	hedged
20	OTP 2022/Dx	28/12/2012	27/12/2022	280	indexed	1.70	hedged
21	OTP 2023/Ax	22/03/2013	24/03/2023	353	indexed	1.70	hedged
22	OTP 2023/Bx	28/06/2013	26/06/2023	240	indexed	0.60	hedged
23	OTP 2024/Ax	18/06/2014	21/06/2024	241	indexed	1.30	hedged
24	OTP 2024/Bx	10/10/2014	16/10/2024	324	indexed	0.70	hedged
25	OTP 2024/Cx	15/12/2014	20/12/2024	272	indexed	0.60	hedged
26	OTP 2020/RF/A	12/07/2010	20/07/2020	2,068	indexed	NaN	hedged
27	OTP 2020/RF/B	12/07/2010	20/07/2020	1,203	indexed	NaN	hedged
28	OTP 2020/RF/C	11/11/2010	05/11/2020	2,485	indexed	NaN	hedged
29	OTP 2021/RF/A	05/07/2011	13/07/2021	2,361	indexed	NaN	hedged
30	OTP 2021/RF/B	20/10/2011	25/10/2021	2,534	indexed	NaN	hedged
31	OTP 2021/RF/C	21/12/2011	30/12/2021	464	indexed	NaN	hedged
32	OTP 2021/RF/D	21/12/2011	30/12/2021	323	indexed	NaN	hedged
33	OTP 2021/RF/E	21/12/2011	30/12/2021	58	indexed	NaN	hedged
34	OTP 2022/RF/A	22/03/2012	23/03/2022	1,804		1.70	hedged
35	OTP 2022/RF/B	22/03/2012	23/03/2022	625		1.70	hedged
36	OTP 2022/RF/C	28/06/2012	28/06/2022	166		1.70	hedged
37	OTP 2022/RF/D	28/06/2012	28/06/2022	222		1.70	hedged
38	OTP 2022/RF/E	29/10/2012	31/10/2022	620		1.70	hedged
39	OTP 2022/RF/F	28/12/2012	28/12/2022	468		1.70	hedged
40	OTP 2023/RF/A	22/03/2013	24/03/2023	650		1.70	hedged
41	OJB 2019/I	17/03/2004	18/03/2019	31,516	9.48	fixed	
42	OJB 2019/II	31/05/2011	18/03/2019	1,093	9.48	fixed	
43	OJB 2020/I	19/11/2004	12/11/2020	5,503	9.0	fixed	
44	OJB 2020/II	31/05/2011	12/11/2020	1,486	9.0	fixed	
45	OJB 2021/I	15/02/2017	27/10/2021	114,000	2.0	fixed	
46	OJB 2023/I	05/04/2018	24/11/2023	43,600	1.75	fixed	
47	OJB 2024/A	17/09/2018	20/05/2024	49,307	0.68	floating	
48	OJB 2024/B	18/09/2018	24/05/2024	36,425	0.68	floating	
49	OJB 2024/II	10/10/2018	24/10/2024	91,000	2.50	fixed	
50	Other			226			
	Subtotal issued securities in HUF			**410,115**			
	Unamortized premium			(2,573)			
	Fair value adjustment			1,820			
	Total issued securities in HUF			**409,362**			

Issued securities denominated in foreign currency as at 31 December:

	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_VK_USD_1_2019/I	16/02/2018	16/02/2019	USD	3.04	855	2.51	floating	
2	OTP_VK_USD_1_2019/II	29/03/2018	29/03/2019	USD	2.83	796	2.60	floating	
3	OTP_VK_USD_1_2019/III	18/05/2018	18/05/2019	USD	2.99	839	2.26	floating	
4	OTP_VK_USD_1_2019/IV	28/06/2018	28/06/2019	USD	2.98	838	2.31	floating	
5	OTP_VK_USD_1_2019/V	06/08/2018	06/08/2019	USD	0.85	238	1.00	indexed	
6	OTP_VK_USD_1_2019/VI	04/10/2018	04/10/2019	USD	2.07	581	1.00	floating	
7	OTP_VK_USD_1_2019/VII	15/11/2018	15/11/2019	USD	0.89	250	1.00	floating	
8	OTP_VK_USD_1_2019/VIII	20/12/2018	20/12/2019	USD	1.50	420	1.00	floating	
9	Other*					321			
	Subtotal issued securities in FX					**5,138**			
	Unamortized premium					(1)			
	Fair value adjustment					–			
	Total issued securities in FX					**5,137**			
	Accrued interest					**3,467**			
	Total issued securities					**417,966**			

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.

* Other category includes promissory notes issued by JSC "OTP Bank" (Russia) in the amount of HUF 321 million.

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

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

	2018	2017
Held-for-trading interest rate swaps	27,956	30,453
Held-for-trading foreign exchange swaps	27,120	14,745
Held-for-trading CCIRS and mark-to-market CCIRS	9,165	12,948
Held-for-trading option contracts	3,631	2,675
Held-for-trading foreign exchange forward contracts	2,982	6,731
Held-for-trading forward rate agreements (FRA)	57	–
Held-for-trading forward security agreements	9	3
Held-for-trading other transactions	2,396	2,319
Total	**73,316**	**69,874**

NOTE 18: OTHER LIABILITIES* (in HUF mn)

	2018	2017
Provision on off-balance sheet commitments and contingent liabilities	83,014	78,318
Liabilities from investment services	67,976	52,569
Liabilities from card transactions	46,430	25,213
Accrued expenses	39,125	39,934
Clearing, settlement and suspense accounts	38,797	19,030
Liabilities connected to Cafeteria benefits	37,187	35,028
Accounts payable	35,562	30,805
Salaries and social security payable	25,741	28,220
Current income tax payable	21,402	17,674
Liabilities due to short positions	13,784	5,221
Advances received from customers	12,246	8,274
Liabilities due to refunding assets	9,417	11,101
Liabilities related to housing loans	8,037	7,819
Giro clearing accounts	6,888	12,096
Insurance technical reserve	4,312	3,816
Provision for expected losses due to CHF loans conversion at foreign subsidiaries	2,415	3,539
Loans from government	878	900
Liabilities connected to loans for collection	806	766
Liabilities connected to leasing activities	50	31
Dividend payable	48	83
Other	43,747	40,846
Subtotal	**497,862**	**421,283**
Accrued interest	995	659
	498,857	**421,942**
Fair value of derivative financial liabilities designated as hedge accounting	7,407	17,199
Deferred tax liabilities**	6,865	9,271
Subtotal	**14,272**	**26,470**
Total	**513,129**	**448,412**

* 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.

** See Note 27.

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

	2018	2017
Commitments and guarantees given	28,144	17,000
Pending legal issues and tax litigation	25,930	24,958
Pensions and other post employment defined benefit obligations	12,236	14,324
Provision for expected losses due to CHF loans conversion at foreign subsidiaries	2,415	3,539
Other long-term employee benefits	1,690	1,193
Restructuring	799	1,058
Other provision	14,215	19,785
Total	**85,429**	**81,857**

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

	2018	2017
Balance as at 1 January	**81,857**	**54,568**
Effect of transition due to IFRS 9 application	4,989	–
Provision for the period	49,032	57,847
Release of provision for the period	(50,873)	(41,890)
Use of provision	(1,457)	(1,036)
Change due to acquisition	–	12,846
Foreign currency translation differences	1,881	(478)
Closing balance	**85,429**	**81,857**

The negative fair value of derivative financial liabilities designated as fair value and as cash-flow hedge by type of contracts:

	2018	2017
Interest rate swaps designated as fair value hedge	6,458	17,199
Interest rate swaps designated as cash-flow hedge	523	–
CCIRS and mark-to-market CCIRS designated as fair value hedge	352	–
MIRS designated as cash-flow hedge	74	–
Total	**7,407**	**17,199**

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

	2018	2017
Over one year:		
In foreign currency	81,429	76,028
Total	**81,429**	**76,028**
Types of subordinated bonds and loans		
Debt securities issued	76,627	76,020
Deposits	4,802	8
Total	**81,429**	**76,028**

Interest rates on subordinated bonds and loans are as follows:

	2018	2017
Denominated in foreign currency	2.68%–5.00%	2.67%
Average interest rates on subordinated bonds and loans	2.76%	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 31 Dec. 2018
Subordinated bond	EUR 236.7 million	07/11/2006	Perpetual	99.375%	Three-month EURIBOR + 3%, variable after year 10 (payable quarterly)	2.683%
Subordinated loan	USD 17.0 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)

	2018	2017
Authorized, issued and fully paid:		
Ordinary shares	28,000	28,000

NOTE 21: RETAINED EARNINGS AND RESERVES* (in HUF mn)

These Consolidated Financial Statements are subject to approval by the Shareholders in the Annual General Meeting in April 2019. 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 592,917 million and HUF 523,019 million) and reserves (HUF 1,271,287 million and HUF 1,148,860 million) as at 31 December 2018 and 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 (151,439) million and HUF (161,660) million as at 31 December 2018 and 2017 respectively.

* See more details about the Consolidated statement of Changes in equity on page 92.

	2018	2017
Retained earnings	592,917	523,019
Capital reserve	52	52
Option reserve	(55,468)	(55,468)
Other reserves	79,829	42,971
Fair value of financial instruments measured at fair value through other comprehensive income	39,670	59,935
Share-based payment reserve	35,632	31,835
Fair value of derivative financial instruments designated as cash-flow hedge	(9)	–
Net investment hedge in foreign operations	(16,288)	(13,034)
Extra reserves	89,935	89,935
Net profit for the period	318,233	281,142
Changes in equity accumulated in the previous years at the subsidiaries and due to consolidation	931,140	873,152
Foreign currency translation differences	(151,439)	(161,660)
Retained earnings and other reserves	**1,864,204**	**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)

	2018	2017
Nominal value (Ordinary shares)	1,848	1,827
Carrying value at acquisition cost	67,999	63,289

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	**2018**	**2017**
Number of shares as at 1 January	**18,274,010**	**18,216,002**
Additions	1,358,018	1,441,203
Disposals	(1,156,195)	(1,383,195)
Closing number of shares	**18,475,833**	**18,274,010**

Change in carrying value	**2018**	**2017**
Balance as at 1 January	**63,289**	**60,121**
Additions	14,238	13,510
Disposals	(9,528)	(10,342)
Closing balance	**67,999**	**63,289**

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

	2018	2017
Balance as at 1 January	**3,465**	**3,292**
Non-controlling interest included in net profit for the period	89	197
Changes due to ownership structure	(11)	110
Effect of transition due to IFRS 9 application	(127)	–
Purchase of non-controlling interest	(752)	–
Foreign currency translation difference	(212)	(134)
Closing balance	**2,452**	**3,465**

NOTE 24: LOSS ALLOWANCES ON LOANS AND PLACEMENTS (in HUF mn)

	2018	2017
Loss allowance on loans		
Loss allowance for the period	333,434	355,929
Release of loss allowance	(271,375)	(353,136)
Loan (gains)/losses due to write-off and sale	(20,975)	37,827
Modification gains on loans measured at amortized cost	(1,941)	–
	39,143	**40,620**
Loss allowance on placements		
Allowance for the period	2,879	53
Release of allowance	(2,683)	(77)
(Gains)/losses on placements due to write-off and sale	(52)	252
	144	**228**
Loss allowance on loans and placements	**39,287**	**40,848**

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

Income from fees and commissions:

	2018	2017
Fees and commissions related to lending*	**22,915**	**26,168**
Deposit and account maintenance fees and commissions	144,942	126,280
Fees and commissions related to the issued bank cards	60,222	53,093
Fees related to cash withdrawal	34,173	31,189
Fees and commissions related to fund management	20,233	22,517
Fees and commissions related to security trading	19,448	25,005
Insurance fee income	14,946	11,391
Other	21,202	19,963
Fees and commissions from contracts with customers	**315,166**	**289,438**
Total	**338,081**	**315,606**

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

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

Expense from fees and commissions:

	2018	2017
Fees and commissions related to issued bank cards	24,362	17,119
Interchange fees	10,419	9,114
Fees and commissions related to deposits	4,468	4,603
Insurance fees	4,018	3,116
Fees and commissions paid on loans	3,640	6,951
Fees and commissions related to security trading	3,085	2,609
Cash withdrawal transaction fees	2,541	1,557
Postal fees	898	860
Fees and commissions related to collection of loans	693	869
Money market transaction fees and commissions	136	383
Other	6,145	7,232
Total	**60,405**	**54,413**
Net profit from fees and commissions	**277,676**	**261,193**

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

	2018	2017
Other operating income		
Income from loss allowance on loans before acquisition	13,507	9,750
Gains on sale of receivables	5,894	6,899
Gains on transactions related to property activities	1,890	2,093
Gains on transactions related to insurance activity	673	409
Non-repayable assets received	575	584
Negative goodwill due to acquisition	–	32,221
Other income from non-financial activities	16,883	13,513
Total	**39,422**	**65,469**
Other operating expenses		
Non-repayable assets contributed	5,486	4,165
Financial support for sport association and organization of public utility	3,979	7,331
Impairment on tangible and intangible assets	2,262	–
Fine imposed by Competition Authority	1,441	18
Loss allowance on investments*	1,232	184
Loss allowance on other assets	862	7,796
Expenses from losses due to foreign currency loan conversion at foreign subsidiaries	377	–
Impairment/(Release of impairment) on investment properties	244	(71)
Impairment for assets subject to operating lease	82	417
(Release of provision)/Provision for off-balance sheet commitments and contingent liabilities	(141)	16,011
Release of provision for expected losses due to foreign currency loan conversion at foreign subsidiaries	(1,700)	(54)
Other	11,871	15,443
Total	**25,995**	**51,240**
Other administrative expenses		
Personnel expenses		
Wages	191,819	160,262
Taxes related to personnel expenses	39,662	37,645
Other personnel expenses	19,560	15,979
Subtotal	**251,041**	**213,886**
Depreciation and impairment of tangible, intangible assets and goodwill impairment**	**57,437**	**49,492**
Other administrative expenses		
Taxes, other than income tax***	87,306	80,550
Services	68,476	56,769
Administration expenses	37,027	34,108
Professional fees	32,477	28,122
Rental fees	21,238	18,224
Advertising	18,279	18,299
Subtotal	**264,803**	**236,072**
Total	**573,281**	**499,450**

*See details in Note 9.
**See details in Note 11.
***Special tax of financial institutions was paid by the Group in the amount of HUF 11,279 million and HUF 9,509 million for the year 2018 and 2017 respectively, recognized as an expense thus decreased the corporate tax base. In the year ended 31 December 2018 financial transaction duty was paid by the Bank in the amount of HUF 57 billion.

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

Deloitte Auditing and Consulting Ltd.	2018	2017
OTP – annual audit – separate financial statements	52	51
OTP – annual audit – consolidated financial statements	13	13
Other audit based on statutory provisions to OTP Group members	473	412
Other services providing assurance	9	3
Other non-audit services	27	64
Total	**574**	**543**

Deloitte Network	2018	2017
Audit based on statutory provisions	722	616
Other services providing assurance	2	–
Tax consulting services	182	110
Other non-audit services	550	235
Total	**1,456**	**961**

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:

	2018	2017
Current tax expense	22,480	16,093
Deferred tax expense	11,357	25,410
Total	**33,837**	**41,503**

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

	2018	2017
Balance as at 1 January	**20,148**	**49,359**
Effect of transition due to IFRS 9 application	2,678	–
Deferred tax expense in profit or loss	(11,357)	(25,410)
Deferred tax related to items recognized directly in equity and in Comprehensive Income	2,780	(1,947)
Due to acquisition of subsidiary	–	(800)
Foreign currency translation difference	(345)	(1,054)
Closing balance	**13,904**	**20,148**

A breakdown of the deferred tax assets are as follows:

	2018	2017
Unused tax allowance	5,348	11,489
Difference due to transition to IFRS	4,748	252
Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments	3,714	1,607
Premium and discount amortization on bonds	2,838	3,555
Fair value adjustment of securities at fair value through profit or loss and through other comprehensive income	2,335	3,608
Tax accrual caused by negative taxable income	2,319	7,307
Difference in depreciation and amortization	925	139
Difference due to IFRS 9	505	–
Adjustment from effective interest rate method	465	1,660
Refundable tax in accordance with Acts on Customer Loans	245	2,294
Difference in accounting for leases	32	–
Fair value adjustment of derivative financial instruments	19	303
Amounts unenforceable by tax law	13	–
Loss allowance on investments (Goodwill)	–	1,268
Other	8,639	14,090
Deferred tax asset	**32,145**	**47,572**

A breakdown of the deferred tax liabilities are as follows:

	2018	2017
Fair value adjustment of securities at fair value through profit or loss and through other comprehensive income	(7,435)	(10,168)
Deferred tax due to acquisition	(4,461)	(4,608)
Difference in depreciation and amortization	(3,127)	(5,089)
Fair value adjustment of derivative financial instruments	(850)	(1,195)
Difference in accounting for leases	(631)	(769)
Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments	(408)	(406)
Difference due to transition to IFRS	(264)	(2,024)
Temporary differences arising on consolidation	(25)	(785)
Premium and discount amortization on bonds	(1)	(3)
Adjustment from effective interest rate method	-	(176)
Other	(1,039)	(2,201)
Deferred tax liabilities	**(18,241)**	**(27,424)**
Net deferred tax asset (net amount presented in the statement of financial positions)	**13,904**	**20,148**
Deferred tax assets	20,769	29,419
Deferred tax liabilities	6,865	9,271

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

	2018	2017
Profit before income tax	352,159	322,842
Income tax expense at statutory tax rates	42,961	37,561

Income tax adjustments due to permanent differences are as follows:

	2018	2017
Deferred use of tax allowance	6,122	10,492
Share-based payment	342	324
Permanent differences from unused tax losses	118	–
Amounts unenforceable by tax law	(17)	–
Difference due to transition to IFRS	(422)	(4,485)
Use of tax allowance in the current year	(4,835)	(6,964)
Other	(10,432)	4,575
Income tax	**33,837**	**41,503**
Effective tax rate	**9.6%**	**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

Classification into risk classes

According to the requirements of the IFRS 9 standard Group classifies the financial assets measured at amortized cost, at fair value through other comprehensive income and loan commitments and financial guarantees into the following stages:

- stage 1 – performing 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
- POCI – purchased or originally credit impaired

In the case of trade receivables, contract assets and lease receivables the Group applies the simplified approach and calculates only lifetime expected credit loss.
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 client or loan must be qualified as default if from the following two conditions, one or both of them occur:

- if the client delays more than 90 days. This is objective criterion.
- there is the possibility that the client won't pay all of its obligation. This condition is examined on the basis of probability criterions of default.

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

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

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

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

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

The impairment of the receivable equals the difference of the receivable's AC (gross book value) on the valuation date and the present value of the receivable's expected cash-flows discounted to the valuation date by the exposure's original effective interest rate (EIR) (calculated at the initial recognition, or in the case of variable rate, recalculated due to the last interest rate change).

The estimation of the expected future cash-flows should be forward looking, it must also contain the effects of the possible change of macro-economic outlook.

At least two scenarios must be used for the estimation of the expected cash-flow. It should be at least one scenario in which the entity anticipates that realised cash-flows will be significantly different from the contractual cash-flows. Probability weights must be allocated to the individual scenarios.

The estimation must reflect the probability of the occurrence and non-occurrence of the credit loss, even if the most probable result is the non-occurrence of the loss.

On collective basis:

The following exposures are subject to collective assessment:

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

In the collective impairment methodology credit risk and the change of credit risk can be correctly captured by understanding the risk characteristics of the portfolio. In order to achieve this the main risk drivers shall be identified and used to form homogeneous segments having similar risk characteristics. The segmentation is expected to stay stable from month to month however a regular (at least yearly) revision of the segmentation process should be set up to capture the change of risk characteristics.

The segmentation must be performed separately for each parameter, since in each case different factors may have relevance.

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

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

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

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

Gross carrying amount and accumulated loss allowance of financial assets at amortized cost and of interest bearing securities at fair value through other comprehensive income by stages as at 31 December 2018:

	Carrying amount	Stage 1
Placements with other banks	**420,606**	419,468
Mortgage loans	**2,399,184**	2,121,746
Loans to medium and large corporates	**2,651,852**	2,432,280
Consumer loans	**1,833,060**	1,744,664
Loans to micro and small enterprises	**582,012**	494,635
Car-finance loans	**296,684**	277,750
Municipal loans	**269,276**	269,034
Loans at amortized cost	**8,032,068**	7,340,109
Interest bearing securities at fair value through other comprehensive income**	**1,853,186**	1,853,186
Securities at amortized cost	**1,740,520**	1,742,754
Financial assets total	**12,046,380**	**11,355,517**
Loan commitments given	**2,008,387**	1,988,798
Financial guarantees given	**958,859**	939,077
Financial liabilities total	**2,967,246**	**2,927,875**

Gross carrying amount and accumulated loss allowance of financial assets at amortized cost and of interest bearing securities at fair value through other comprehensive income by stages as at 31 December 2017:

	Carrying amount	Stage 1
Placements with other banks as at 31 December 2017	**462,180**	462,207
Transition effect due to IFRS 9 implementation	**(269)**	–
Placements with other banks as at 1 January 2018	**461,911**	462,207
Mortgage loans	**2,259,402**	1,904,064
Loans to medium and large corporates	**2,311,454**	2,138,009
Consumer loans	**1,638,523**	1,608,317
Loans to micro and small enterprises	**349,971**	313,599
Car-finance loans	**222,095**	216,584
Municipal loans	**206,389**	196,608
Loans at amortized cost as at 31 December 2017	**6,987,834**	6,377,181
Transition effect due to IFRS 9 implementation	**(71,219)**	(20,605)
Loans at amortized cost as at 1 January 2018	**6,916,615**	6,356,576
Interest bearing securities at fair value through other comprehensive income as at 31 December 2017	**2,124,565**	2,124,778
Transition effect due to IFRS 9 implementation	**(10,249)**	(10,092)
Interest bearing securities at fair value through other comprehensive income as at 1 January 2018**	**2,114,686**	2,114,686
Securities at amortized cost as at 31 December 2017	**1,310,331**	1,304,340
Transition effect due to IFRS 9 implementation	**6,672**	8,686
Securities at amortized cost as at 1 January 2018	**1,317,003**	**1,313,026**
Financial assets total	**10,811,670**	**10,246,495**
Loan commitments	**1,236,219**	1,231,269
Financial guarantees	**821,435**	816,973
Financial liabilities total as at 31 December 2017	**2,057,654**	**2,048,242**
Transition effect due to IFRS 9 implementation	**(4,964)**	(3,641)
Financial liabilities total as at 1 January 2018	**2,052,690**	**2,044,601**

* Stage 3 includes POCI category too.

** Interest bearing securities at fair value through other comprehensive income is recognized in the Consolidated statement of financial position as at fair value (see 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 loss allowance of this table.

Gross carrying amount/Notional value			Accumulated loss allowance/Provision			
Stage 2	Stage 3*	Total	Stage 1	Stage 2	Stage 3*	Total
1,606	29	**421,103**	463	12	22	**497**
184,617	275,484	**2,581,847**	3,415	8,478	170,770	**182,663**
182,051	194,608	**2,808,939**	23,083	16,719	117,285	**157,087**
127,858	235,098	**2,107,620**	56,524	25,503	192,533	**274,560**
78,411	63,866	**636,912**	5,379	7,152	42,369	**54,900**
17,122	16,108	**310,980**	1,344	818	12,134	**14,296**
1,655	445	**271,134**	1,634	35	189	**1,858**
591,714	785,609	**8,717,432**	91,379	58,705	535,280	**685,364**
–	–	**1,853,186**	3,098	–	–	**3,098**
–	705	**1,743,459**	2,234	–	705	**2,939**
593,320	**786,343**	**12,735,180**	**97,174**	**58,717**	**536,007**	**691,898**
33,881	3,551	**2,026,230**	14,941	2,082	820	**17,843**
22,842	7,150	**969,069**	6,516	739	2,955	**10,210**
56,723	**10,701**	**2,995,299**	**21,457**	**2,821**	**3,775**	**28,053**

Gross carrying amount/Notional value			Accumulated loss allowance/Provision			
Stage 2	Stage 3*	Total	Stage 1	Stage 2	Stage 3*	Total
17	24	**462,248**	43	1	24	**68**
–	–	**–**	269	–	–	**269**
17	24	**462,248**	312	1	24	**337**
221,075	326,597	**2,451,736**	7,920	6,385	178,029	**192,334**
64,855	318,059	**2,520,923**	21,780	1,860	185,829	**209,469**
45,745	244,477	**1,898,539**	41,766	10,344	207,906	**260,016**
16,576	70,769	**400,944**	2,261	539	48,173	**50,973**
4,005	25,247	**245,836**	1,737	391	21,613	**23,741**
5,970	6,074	**208,652**	923	25	1,315	**2,263**
358,226	991,223	**7,726,630**	76,387	19,544	642,865	**738,796**
81	(9,403)	**29,927**	10,361	20,619	10,312	**41,292**
358,307	981,820	**7,696,703**	86,748	40,163	653,177	**780,088**
–	157	**2,124,935**	213	–	157	**370**
–	(157)	**(10,249)**	3,042	–	(157)	**2,885**
–	–	**2,114,686**	3,255	–	–	**3,255**
6,022	685	**1,311,047**	–	80	636	**716**
–	–	**8,686**	2,009	–	5	**2,014**
6,022	**685**	**1,319,733**	**2,009**	**80**	**641**	**2,730**
364,346	**988,796**	**11,599,637**	**92,324**	**40,244**	**658,654**	**791,222**
12,001	2,284	**1,245,554**	9,093	111	131	**9,335**
3,295	7,188	**827,456**	3,289	397	2,335	**6,021**
15,296	**9,472**	**2,073,010**	**12,382**	**508**	**2,466**	**15,356**
2,099	1,542	**–**	1,816	1,181	1,967	**4,964**
17,395	**11,014**	**2,073,010**	**14,198**	**1,689**	**4,433**	**20,320**

Movement of loss allowance on financial assets at amortized cost and on interest bearing securities at fair value through other comprehensive income as at 31 December 2018:

	Opening balance	Increases due to origination and acquisition
Stage 1	**92,280**	**72,512**
Placements with other banks	312	1,204
Loans at amortized cost	86,748	69,669
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost	5,220	1,639
Stage 2	**40,244**	**7,773**
Placements with other banks	1	–
Loans at amortized cost	40,163	7,773
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost	80	–
Stage 3*	**653,886**	**46,631**
Placements with other banks	24	–
Loans at amortized cost	653,177	45,926
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost	685	705
Loss allowance on financial assets total	**786,410**	**126,916**
Loan commitments and financial guarantees given – stage 1	14,198	4,908
Loan commitments and financial guarantees given – stage 2	1,689	1,447
Loan commitments and financial guarantees given – stage 3	4,433	2,631
Financial liabilities total	**20,320**	**8,986**

Loan portfolio by countries

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

	2018		2017	
Country	Carrying amount of gross loan at amortized cost and placement with other banks portfolio	Loss allowance	Carrying amount of gross loan at amortized cost and placement with other banks portfolio	Loss allowance
Hungary	3,369,319	154,995	2,988,753	177,834
Bulgaria	1,435,621	126,059	1,280,915	123,673
Croatia	1,282,367	72,827	1,252,800	64,521
Russia	658,205	131,619	588,153	115,064
Romania	622,602	37,917	536,597	42,197
Slovakia	519,264	32,155	382,567	31,563
Serbia	367,995	18,506	355,214	23,248
Ukraine	360,652	77,470	294,181	95,493
Montenegro	169,368	30,153	146,724	43,453
France	55,888	30	30,677	19
Switzerland	51,744	292	4,522	2
United Kingdom	46,183	1,163	64,151	873
Germany	38,102	214	54,110	108
Belgium	31,092	123	12,494	55
United States of America	23,901	42	10,157	22
The Netherlands	19,334	234	4,968	143
Cyprus	19,310	635	41,577	14,117
Turkey	13,148	71	6,235	9
Italy	11,877	129	10,445	33
Austria	10,804	21	29,967	5,251
Australia	6,811	–	155	–
Czech Republic	6,175	104	13,167	14
Poland	4,300	41	2,553	21
Canada	3,306	1	250	807
Norway	2,170	38	8,194	21
Slovenia	1,291	10	309	1

* Stage 3 includes POCI category too.

Decreases due to derecognition	Transfers between stages	Changes due to change in credit risk (net)	Changes due to modifications without derecognition (net)	Decrease in loss allowance account due to write-offs	Other adjustments	Closing balance
(17,906)	**(196,638)**	**143,939**	**(2,247)**	**(45)**	**5,279**	**97,174**
(9)	–	(1,037)	–	–	(7)	**463**
(17,670)	(196,638)	146,458	(2,247)	(45)	5,104	**91,379**
(227)	–	(1,482)	–	–	182	**5,332**
(3,602)	**78,714**	**(54,101)**	**(940)**	**(132)**	**(9,239)**	**58,717**
–	–	13	(1)	–	(1)	**12**
(3,602)	78,714	(54,034)	(939)	(132)	(9,238)	**58,705**
–	–	(80)	–	–	–	**–**
(72,208)	**117,924**	**(185,877)**	**6,507**	**(51,530)**	**20,674**	**536,007**
(2)	–	–	–	–	–	**22**
(72,206)	117,924	(184,904)	6,507	(51,530)	20,386	**535,280**
–	–	(973)	–	–	288	**705**
(93,716)	**–**	**(96,039)**	**3,320**	**(51,707)**	**16,714**	**691,898**
(2,018)	913	1,846	171	–	1,439	**21,457**
(33)	(1,030)	813	(4)	–	(61)	**2,821**
(388)	117	(2,932)	(121)	–	35	**3,775**
(2,439)	**–**	**(273)**	**46**	**–**	**1,413**	**28,053**

	2018		2017	
Country	**Carrying amount of gross loan at amortized cost and placement with other banks portfolio**	**Loss allowance**	**Carrying amount of gross loan at amortized cost and placement with other banks portfolio**	**Loss allowance**
Ireland	1,006	130	401	67
Greece	870	104	455	53
Bosnia and Herzegovina	637	202	1,307	–
Spain	629	12	5,323	1
Sweden	440	43	371	15
Denmark	354	1	113	1
Israel	247	1	4,453	1
Luxembourg	122	1	697	–
Kazakhstan	107	52	130	57
Egypt	90	29	88	6
United Arab Emirates	64	55	23	16
Japan	61	–	623	–
Iceland	49	48	47	34
Latvia	28	15	5	14
Other*	3,002	319	54,849	56
Total**	**9,138,535**	**685,861**	**8,188,720**	**738,863**

* Other category as at 31 December 2018 includes e.g.: Macedonia, Algeria, Malta, Saint Vincent, Iran, China, Estonia, Republic of South-Africa, Armenia, Belorussia, Hong Kong, Moldova, Jordan, Tunisia, Syria, Portugal, Morocco, Finland, India, Brazil, Lithuania.

** It includes the accrued interest receivable too.

Loans at fair value:

Country	2018
Hungary	32,745
Croatia	1,780
Total	**34,525**

The loan portfolio increased mostly in Slovakia, Ukraine and Romania however there were no significant decreases in any other countries of Group members. Their stock of loss allowances increased mostly in Russia and Croatia, while the decreasing tendency was the highest in Montenegro and Serbia among the countries of the Group members.

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	2018	2017
Mortgages	8,650,498	7,330,181
Assignments (revenue or other receivables)	432,671	409,486
Guarantees and warranties	399,206	297,574
Guarantees of state or organizations owned by state	118,495	173,824
Securities	94,724	75,589
Cash deposits	94,593	115,217
Other	1,149,140	949,143
Total	**10,939,327**	**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	2018	2017
Mortgages	3,873,185	3,397,094
Assignments (revenue or other receivables)	374,541	340,365
Guarantees and warranties	270,773	180,680
Guarantees of state or organizations owned by state	103,148	155,615
Securities	61,287	48,622
Cash deposits	51,485	45,207
Other	657,228	550,817
Total	**5,391,647**	**4,718,400**

The coverage level of the loan portfolio (total collateral) increased by 2.08%, while the coverage level to the extent of the exposures decreased by 0.02% as at 31 December 2018.

28.1.3 Restructured loans

	2018		2017	
	Gross portfolio	**Loss allowance**	**Gross portfolio**	**Loss allowance**
Loans to medium and large corporations	33,218	7,863	36,199	1,030
Retail mortgage loans	23,579	3,632	74,087	2,353
Retail consumer loans	11,976	3,823	16,683	617
Loans to micro and small enterprises	5,356	1,171	4,647	239
Other loans	299	64	2,113	296
Total	**74,428**	**16,553**	**133,729**	**4,535**

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

28.1.4 Financial instruments by rating categories*

Securities held for trading as at fair value through profit or loss as at 31 December 2018:

	Aaa	Aa1	Aa3	A1	A2	A3	Baa1	Baa2	Baa3	Ba2	Not rated	Total
Government bonds	277	–	–	–	–	–	–	11,482	11,552	9,845	927	**34,083**
Shares and investment bonds	–	–	25	51	43	6	24	6	4	7	8,075	**8,241**
Discounted Treasury bills	–	–	–	–	–	–	–	–	1,059	–	–	**1,059**
Other securities		71	–	–	–	–	–	–	1,456	–	637	**2,164**
Other non-interest-bearing securities	–	–	–	–	–	–	–	–	–	–	4,505	**4,505**
Total	**277**	**71**	**25**	**51**	**43**	**6**	**24**	**11,488**	**14,071**	**9,852**	**14,144**	**50,052**
Accrued interest												**387**
Total	**277**	**71**	**25**	**51**	**43**	**6**	**24**	**11,488**	**14,071**	**9,852**	**14,144**	**50,439**

Non-trading securities mandatorily at fair value through profit or loss:

	Aaa	Baa2	Baa3	Not rated	Total
Non-trading debt instruments mandatorily at fair value through profit or loss	–	493	788	25	1,306
Non-trading equity instruments mandatorily at fair value through profit or loss	6,755	–	–	19,451	26,206
Total	**6,755**	**493**	**788**	**19,476**	**27,512**

Securities at fair value through other comprehensive income as at 31 December 2018:

	A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2	Ba3	Caa1	Not rated	Total
Government bonds	–	26,911	6,076	30,517	96,522	921,941	55,797	158,258	37,781	11,166	12,279	**1,357,248**
Discounted Treasury bills	–	–	–	–	–	282,337	–	49,543	–	–	–	**331,880**
Mortgage bonds	–	–	–	53,703	–	–	–	–	–	–	28,120	**81,823**
Corporate bonds	–	–	1,614	–	1,423	32,790	–	437	–	–	25,157	**61,421**
Other non-interest-bearing securities	5,503	830	–	–	–	747	–	–	–	–	23,583	**30,663**
Total	**5,503**	**27,741**	**7,690**	**84,220**	**97,945**	**1,237,815**	**55,797**	**208,238**	**37,781**	**11,166**	**89,139**	**1,863,035**
Accrued interest												**20,814**
Total												**1,883,849**

Securities at amortized cost as at 31 December 2018:

	A2	Ba2	Ba3	Baa2	Baa3	B1	Caa1	Not rated	Total
Government bonds	22,945	117	–	3,343	1,619,944	25,075	37,214	705	**1,709,343**
Corporate bonds	–	2,881	6,753	–	–	–	–	434	**10,068**
Total	**22,945**	**2,998**	**6,753**	**3,343**	**1,619,944**	**25,075**	**37,214**	**1,139**	**1,719,411**
Accrued interest									**24,048**
Total									**1,743,459**

* Moody's ratings.

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 year ended 31 December 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.

As at 31 December 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	1,545,507	1,765	–	–	–	1,547,272
Placements with other banks, net of loss allowance for placements	217,194	151,072	32,676	23,305	388	424,635
Securities at fair value through profit or loss	20,227	4,922	11,855	7,082	25,984	70,070
Securities at fair value through other comprehensive income	257,993	412,482	875,882	276,358	25,681	1,848,396
Loans at amortized cost and at fair value	1,022,190	1,981,871	2,777,450	2,757,872	5,792	8,545,175
Associates and other investments	–	–	–	–	17,591	17,591
Securities at amortized cost	60,240	119,592	871,365	610,122	–	1,661,319
Other financial assets*	54,275	35	1	–	193	54,504
TOTAL ASSETS	**3,177,626**	**2,671,739**	**4,569,229**	**3,674,739**	**75,629**	**14,168,962**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	102,833	46,357	155,785	87,741	–	392,716
Deposits from customers	9,995,997	943,409	211,109	141,113	–	11,291,628
Liabilities from issued securities	41,642	6,722	192,865	177,569	–	418,798
Other financial liabilities**	141,373	333	–	6	967	142,679
Subordinated bonds and loans	719	1,693	9,060	69,961	–	81,433
TOTAL LIABILITIES	**10,282,564**	**998,514**	**568,819**	**476,390**	**967**	**12,327,254**
NET POSITION	**(7,104,938)**	**1,673,225**	**4,000,410**	**3,198,349**	**74,662**	**1,841,708**
Receivables from derivative financial instruments held for trading	1,330,293	396,708	340,219	257,349	–	2,324,569
Liabilities from derivative financial instruments held for trading	(1,631,984)	(691,221)	(424,756)	(513,369)	–	(3,261,330)
Net position of financial instruments held for trading	**(301,691)**	**(294,513)**	**(84,537)**	**(256,020)**	**–**	**(936,761)**
Receivables from derivative financial instruments designated as hedge accounting	27,095	91,548	241,913	45,726	–	406,282
Liabilities from derivative financial instruments designated as hedge accounting	(26,821)	(76,655)	(438,482)	(60,192)	–	(602,150)
Net position of financial instruments designated as hedge accounting	**274**	**14,893**	**(196,569)**	**(14,466)**	**–**	**(195,868)**
Net position of derivative financial instruments total	**(301,417)**	**(279,620)**	**(281,106)**	**(270,486)**	**–**	**(1,132,629)**
Commitments to extend credit	894,592	1,041,823	210,537	40,667	–	2,187,619
Bank guarantees	195,512	173,734	132,467	96,381	2,184	600,278
Off-balance sheet commitments	**1,090,104**	**1,215,557**	**343,004**	**137,048**	**2,184**	**2,787,897**

* Without derivative financial instruments, it includes trade receivables, prepayments and accrued income and receivables from investment services.

** Without derivative financial instruments, it includes account payables, deferrals, compulsion loans and liabilities from investments services.

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 loss allowance for placements	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
Other financial assets*	53,131	343	–	–	44	53,518
TOTAL ASSETS	**2,781,812**	**2,139,472**	**4,312,120**	**3,519,719**	**54,442**	**12,807,565**
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 financial liabilities**	120,620	878	1	0	1,313	122,812
Subordinated bonds and loans	325	2	–	75,701	–	76,028
TOTAL LIABILITIES	**9,140,629**	**1,094,287**	**598,905**	**322,320**	**1,313**	**11,157,454**
NET POSITION	**(6,358,817)**	**1,045,185**	**3,713,215**	**3,197,399**	**53,129**	**1,650,111**
Receivables from derivative financial instruments held for trading	1,370,126	972,622	585,361	136,689	–	3,064,798
Liabilities from derivative financial instruments held for trading	(1,665,817)	(796,322)	(513,955)	(150,520)	–	(3,126,614)
Net position of financial instruments h eld for trading	**(295,691)**	**176,300**	**71,406**	**(13,831)**	**–**	**(61,816)**
Receivables from derivative financial instruments designated as hedge accounting	4,302	62,093	158,991	66,120	–	291,506
Liabilities from derivative financial instruments designated as hedge accounting	(402)	(307,404)	(468,105)	(20,241)	–	(796,152)
Net position of financial instruments designated as hedge accounting	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**

* Without derivative financial instruments, it includes trade receivables, prepayments and accrued income and receivables from investment services.

** Without derivative financial instruments, it includes account payables, deferrals, compulsion loans and liabilities from investments services.

28.3 Net foreign currency position and foreign currency risk

As at 31 December 2018:

	USD	EUR	CHF	Others	Total
Assets	519,763	3.340,594	71,914	3,960,318	7,892,589
Liabilities	(567,176)	(2,855,678)	(53,833)	(3,020,425)	(6,497,112)
Derivative financial instruments	62,014	(355,835)	(20,117)	(27,253)	(341,191)
Net position	**14,601**	**129,081**	**(2,036)**	**912,640**	**1,054,286**

As at 31 December 2017:

	USD	EUR	CHF	Others	Total
Assets	499,300	3,007,825	94,450	3,313,756	6,915,331
Liabilities	(563,412)	(2,674,250)	(45,639)	(2,720,237)	(6,003,538)
Derivative financial instruments	68,952	(118,613)	(22,871)	(14,356)	(86,888)
Net position	**4,840**	**214,962**	**25,940**	**579,163**	**824,905**

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.

As at 31 December 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
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
ASSETS															
Cash, amounts due from banks and balances with the National Banks	**29,189**	**344,793**	**4**	**88**	**–**	**18**	**–**	**–**	**–**	**–**	**202,807**	**970,373**	**232,000**	**1,315,272**	**1,547,272**
fixed rate	27,852	342,282	–	88	–	17	–	–	–	–	–	–	27,852	342,387	370,239
variable rate	1,337	2,511	4	–	–	1	–	–	–	–	–	–	1,341	2,512	3,853
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	202,807	970,373	202,807	970,373	1,173,180
Placements with other banks, net of allowance for placements losses	**104,946**	**139,379**	**8,870**	**56,902**	**29,379**	**30,111**	**861**	**–**	**–**	**826**	**31,233**	**18,099**	**175,289**	**245,317**	**420,606**
fixed rate	5,536	98,584	8,870	50,537	58	28,518	861	–	–	826	–	–	15,325	178,465	193,790
variable rate	99,410	40,795	–	6,365	29,321	1,593	–	–	–	–	–	–	128,731	48,753	177,484
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	31,233	18,099	31,233	18,099	49,332
Financial assets at fair value through profit or loss	**1,073**	**4,328**	**1,510**	**441**	**6,086**	**6,044**	**–**	**1,459**	**–**	**18,496**	**28,843**	**9,671**	**37,512**	**40,439**	**77,951**
fixed rate	2	2,583	67	441	5,095	6,044	–	1,459	–	18,496	–	–	5,164	29,023	34,187
variable rate	1,071	1,745	1,443	–	991	–	–	–	–	–	–	–	3,505	1,745	5,250
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	28,843	9,671	28,843	9,671	38,514
Securities at fair value through other comprehensive income	**68,525**	**42,076**	**142,135**	**81,260**	**408,288**	**52,665**	**119,081**	**64,060**	**349,897**	**523,535**	**1,965**	**30,362**	**1,089,891**	**793,958**	**1,883,849**
fixed rate	48,869	42,076	60,922	81,260	351,691	52,665	119,081	59,750	348,910	523,535	–	–	929,473	759,286	1,688,759
variable rate	19,656	–	81,213	–	56,597	–	–	4,310	987	–	–	–	158,453	4,310	162,763
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	1,965	30,362	1,965	30,362	32,327
Loans at amortized cost and at fair value	**441,995**	**2,749,040**	**880,215**	**659,955**	**131,993**	**623,734**	**280,605**	**205,738**	**1,137,939**	**819,655**	**94,443**	**41,281**	**2,967,190**	**5,099,403**	**8,066,593**
fixed rate	14,422	720,941	1,933	108,312	22,887	324,938	219,491	168,363	709,526	399,139	–	–	968,259	1,721,693	2,689,952
variable rate	427,573	2,028,099	878,282	551,643	109,106	298,796	61,114	37,375	428,413	420,516	–	–	1,904,488	3,336,429	5,240,917
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	94,443	41,281	94,443	41,281	135,724
Securities at amortized cost	**–**	**37,214**	**5,062**	**571**	**122,161**	**8,780**	**107,518**	**16,740**	**1,383,536**	**56,328**	**2,535**	**75**	**1,620,812**	**119,708**	**1,740,520**
fixed rate	–	37,214	5,062	571	122,161	8,780	107,518	16,740	1,383,536	56,328	–	–	1,618,277	119,633	1,737,910
variable rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	2,535	75	2,535	75	2,610
Derivative financial instruments	**842,714**	**477,367**	**907,278**	**442,794**	**645,969**	**447,455**	**19,192**	**264,128**	**23,172**	**84,528**	**234,315**	**120,494**	**2,672,640**	**1,836,766**	**4,509,406**
fixed rate	814,440	475,377	756,860	408,892	643,141	409,431	19,192	264,128	23,172	84,528	–	–	2,256,805	1,642,356	3,899,161
variable rate	28,274	1,990	150,418	33,902	2,828	38,024	–	–	–	–	–	–	181,520	73,916	255,436
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	234,315	120,494	234,315	120,494	354,809
Other financial assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**37,922**	**16,744**	**37,922**	**16,744**	**54,666**
fixed rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
variable rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	37,922	16,744	37,922	16,744	54,666
LIABILITIES															
Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks	**64,270**	**149,357**	**1,259**	**9,753**	**1,159**	**6,727**	**2,463**	**6,463**	**128,135**	**6,436**	**9,253**	**7,431**	**206,539**	**186,167**	**392,706**
fixed rate	8,655	111,126	1,254	6,929	1,152	3,907	2,463	6,463	128,135	6,436	–	–	141,659	134,861	276,520
variable rate	55,615	38,231	5	2,824	7	2,820	–	–	–	–	–	–	55,627	43,875	99,502
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	9,253	7,431	9,253	7,431	16,684
Deposits from customers	**767,504**	**4,038,620**	**190,038**	**449,593**	**97,267**	**595,259**	**39,958**	**50,021**	**4,041,988**	**747,734**	**3,062**	**264,041**	**5,139,817**	**6,145,268**	**11,285,085**
fixed rate	437,707	1,508,239	190,026	446,960	97,266	595,017	39,958	50,017	4,041,988	747,709	–	–	4,806,945	3,347,942	8,154,887
variable rate	329,797	2,530,381	12	2,633	1	242	–	4	–	25	–	–	329,810	2,533,285	2,863,095
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	3,062	264,041	3,062	264,041	267,103
Liabilities from issued securities	**23,608**	**1,065**	**133,223**	**1,903**	**4,211**	**2,098**	**5,611**	**42**	**242,710**	**47**	**3,424**	**24**	**412,787**	**5,179**	**417,966**
fixed rate	–	227	39,265	–	2,156	4	5,611	42	242,710	47	–	–	289,742	320	290,062
variable rate	23,608	838	93,958	1,903	2,055	2,094	–	–	–	–	–	–	119,621	4,835	124,456
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	3,424	24	3,424	24	3,448
Derivative financial instruments	**1,095,148**	**227,313**	**963,041**	**363,943**	**615,257**	**464,843**	**273,251**	**14,581**	**39,995**	**60,652**	**214,445**	**139,054**	**3,201,137**	**1,270,386**	**4,471,523**
fixed rate	1,068,144	216,646	823,357	341,469	612,805	441,177	273,251	14,581	39,995	60,652	–	–	2,817,552	1,074,525	3,892,077
variable rate	27,004	10,667	139,684	22,474	2,452	23,666	–	–	–	–	–	–	169,140	56,807	225,947
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	214,445	139,054	214,445	139,054	353,499
Subordinated bonds and loans	**–**	**–**	**–**	**76,498**	**–**	**–**	**–**	**–**	**–**	**4,903**	**–**	**28**	**–**	**81,429**	**81,429**
fixed rate	–	–	–	–	–	–	–	–	–	4,903	–	–	–	4,903	4,903
variable rate	–	–	–	76,498	–	–	–	–	–	–	–	–	–	76,498	76,498
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	28	–	28	28
Other financial liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**106,999**	**35,664**	**106,999**	**35,664**	**142,663**
fixed rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
variable rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	106,999	35,664	106,999	35,664	142,663
Net position	**(462,088)**	**(622,158)**	**657,513**	**340,321**	**625,982**	**99,880**	**205,974**	**481,018**	**(1,558,284)**	**683,596**	**296,880**	**760,857**	**(234,023)**	**1,743,514**	**1,509,491**

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
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
ASSETS															
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
Other financial assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**37,522**	**15,996**	**37,522**	**15,996**	**53,518**
fixed rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
variable rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	37,522	15,996	37,522	15,996	53,518
FORRÁSOK															
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
Other financial liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**91,812**	**31,000**	**91,812**	**31,000**	**122,812**
fixed rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
variable rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	91,812	31,000	91,812	31,000	122,812
Net position	**(303,707)**	**(449,558)**	**427,372**	**601,079**	**694,684**	**83,060**	**481,671**	**327,842**	**(1,170,572)**	**328,874**	**376,407**	**109,117**	**505,855**	**1,000,414**	**1,506,269**

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:

Historical VaR (99%, one-day) by risk type	Average (in HUF mn) 2018	2017
Foreign exchange	504	300
Interest rate	212	191
Equity instruments	33	10
Diversification	–	–
Total VaR exposure	**749**	**501**

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.

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 31 December 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 (in HUF billion)	
	2018	2017
1%	(12,2)	(11,9)
5%	(8,3)	(8,1)
25%	(3,5)	(3,3)
50%	(0,4)	(0,3)
25%	2,6	2,6
5%	6,7	6,7
1%	9,6	9,4

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 year ended 31 December 2018 or 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.

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) HUF base rate stays unchanged and BUBOR decreases gradually by 50 bps over the next year (alternative scenario)

The net interest income in a one year period after 1 January 2019 would be decreased by HUF 1,309 million (probable scenario) and HUF 3,424 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 268 million (or probable scenario), HUF 3,331 million (for alternative scenario) as at 31 December 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):

	2018		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	(1,815)	671	(1,658)	771
EUR (0.1%) parallel shift	(373)	–	(539)	–
USD (0.1%) parallel shift	(172)	–	(168)	–
Total	**(2,360)**	**671**	**(2,365)**	**771**

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	2018	2017
VaR (99%, one day, HUF million)	33	10
Stress test (HUF million)	(43)	(123)

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 year 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 15.3%, the Regulatory capital was HUF 1,449,629 million and the Total regulatory capital requirement was HUF 757,157 million as at 31 December 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.

Calculation on IFRS basis	2018	2017
Core capital (Tier1) = Common Equity Tier1 (CET1)	**1,282,906**	**1,062,701**
Issued capital	28,000	28,000
Reserves	1,548,469	1,383,726
Fair value corrections	23,374	59,936
Other capital components	(115,807)	**(142,860)**
Non-controlling interests	1,313	940
Treasury shares	(67,999)	(63,289)
Goodwill and other intangible assets	(168,911)	(178,640)
Other adjustments	34,467	(25,112)
Additional Tier1 (AT1)	–	–
Supplementary capital (Tier2)	**166,723**	**165,927**
Subordinated bonds and loans	76,496	75,695
Other issued capital components	89,935	89,935
Components recognized in T2 capital issued by subsidiaries	292	297
Regulatory capital*	**1,449,629**	**1,228,628**
Credit risk capital requirement	635,328	543,645
Market risk capital requirement	32,379	41,000
Operational risk capital requirement	89,450	86,549
Total requirement regulatory capital	**757,157**	**671,194**
Surplus capital	**768,742**	**557,434**
CET1 ratio	13.6%	12.7%
Tier1 ratio	13.6%	12.7%
Capital adequacy ratio	**15.3%**	**14.6%**

* The consolidated regulatory capital of the Group doesn't contain the profit decreased by the paid dividend nor for the year 2018 neither for the year 2017.

Basel III

The components of the Common Equity Tier1 capital (CET1) 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 (Tier2): Subordinated loan capital, Supplementary loan capital, Other issued capital components, Components recognized in T2 capital issued by subsidiaries.

NOTE 29: RECLASSIFICATION OF FINANCIAL INSTRUMENTS (in HUF mn)

Reclassification from securities held-for-trading to securities at fair value through other comprehensive income:

Date of reclassification	Reason for reclassification	Type of securities	Nominal value at reclassification	Fair value at the date of reclassification	EIR at the date of reclassification	Interest income
1 September 2018	Change in business model	Retail Hungarian government bonds	66,506	66,484	2%–6,4%	643

During the year 2018, securities issued by the Hungarian Government with the nominal value of HUF 66,506 million were transferred from the trading portfolio to the securities at fair value through other comprehensive income. The Group has previously held retail government bonds in the portfolio at fair value through other comprehensive income. During 2018 the Group changed the business model of the retail government bonds to manage all on the basis of a single business model aimed at collecting the future contractual cash-flows and/or selling them.

In 2018, the terms and conditions of sale of retail government bonds and the pricing environment have changed significantly, as a result of which the Group is no longer able to maintain its sole trading intent with these securities that the Group applied earlier. Due to the decrease in transaction volume and the changes in conditions, the Group has chosen to keep the securities and realises its cash-flows however also realising potential gains by making favourable buy-sell transaction on the market.

NOTE 30: 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:

	2018	2017
Commitments to extend credit	2,187,619	1,731,030
Guarantees arising from banking activities	600,278	532,359
Contingent liabilities and commitments total in accordance with IFRS 9	**2,787,897**	**2,263,389**
Legal disputes (disputed value)	30,644	15,775
Confirmed letters of credit	9,798	14,541
Other	255,271	326,745
Contingent liabilities and commitments total in accordance with IAS 37	**295,713**	**357,061**
Total	**3,083,610**	**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 25,930 million and HUF 24,958 million as at 30 December 2018 and 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.

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 31: 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[2].

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

[2] Until the end of 2014 Board of Directors.

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.

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 (HUF per share)	Exercise price	Maximum earnings
	for the year 2013		for the year 2014	
2014	2,522	2,500	–	–
2015	2,522	3,000	3,930	2,500
2016	2,522	3,500	3,930	3,000
2017	2,522	3,500	3,930	3,000
2018	–	–	3,930	3,000

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

	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
Year	Exercise price	Maximum earnings		Exercise price	Maximum earnings (HUF per shares)		Exercise price	Maximum earnings	
	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

Based on parameters accepted by Board of Directors relating to the year 2013 effective pieces are follows as at 31 December 2018:

	Approved pieces of shares	Exercised until 31 Dec. 2018	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable as at 31 Dec. 2018
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	483,987	483,987	9,405	–	–

Based on parameters accepted by Board of Directors relating to the year 2014 effective pieces are follows as at 31 December 2018:

	Approved pieces of shares	Exercised until 31 Dec. 2018	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable as at 31 Dec. 2018
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	189,778	189,778	9,362	–	–
Share purchasing period started in 2018	223,037	200,433	10,097	–	22,604

Based on parameters accepted by Supervisory Board relating to the year 2015 effective pieces are follows as at 31 December 2018:

	Approved pieces of shares	Exercised until 31 Dec. 2018	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable as at 31 Dec. 2018
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	299,758	299,758	9,403	–	–
Remuneration exchanged to share provided in 2017	20,176	20,176	9,257	–	–
Share purchasing period started in 2018	166,047	151,489	10,009	–	14,558
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

Based on parameters accepted by Supervisory Board relating to the year 2016 effective pieces are follows as at 31 December 2018:

	Approved pieces of shares	Exercised until 31 Dec. 2018	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable as at 31 Dec. 2018
Share purchasing period started in 2017	147,984	147,984	9,544	–	–
Remuneration exchanged to share provided in 2017	4,288	4,288	9,194	–	–
Share purchasing period started in 2018	321,528	314,769	10,283	–	6,759
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 31 December 2018:

	Approved pieces of shares	Exercised until 31 Dec. 2018	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable as at 31 Dec. 2018
Share purchasing period started in 2018	108,243	108,243	11,005	–	–
Remuneration exchanged to share provided in 2018	11,926	11,926	10,098	–	–
Share purchasing period 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 3,797 million and HUF 3,597 million was recognized as expense for the year ended 31 December 2018 and 2017 respectively.

NOTE 32: 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	2018	2017
Short-term employee benefits	7,817	8,323
Share-based payment	2,431	2,520
Other long-term employee benefits	390	384
Termination benefits	36	29
Post-employment benefits	26	12
Total	**10,700**	**11,268**
Loans provided to companies owned by the Management (normal course of business)	62,971	56,508
Commitments to extend credit and guarantees	37,809	38,652
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)	3,692	3,743

	2018		2017	
Types of transactions	**Non-consolidated subsidiaries**	**Associated companies**	**Non-consolidated subsidiaries**	**Associated companies**
Loans provided	5,136	22	4,484	1,334
Client deposits	4,753	628	5,191	321
Net interest income on loan provided	144	–	132	111
Net fee incomes	39	–	44	–

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

	2018	2017
Members of Board of Directors and their close family members	130.7	37
Executives	117	163.8
Members of Supervisory Board and their close family members	4.4	0.7
Total	**252.1**	**201.5**

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

	2018	2017
Members of Board of Directors and their close family members	29	29
Executives	5	5
Total	**34**	**34**

An analysis of credit limit related to Mastercard Bonus is as follows:

	2018	2017
Executives	2	–
Total	**2**	**–**

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

	2018	2017
Members of Board of Directors and their close family members	31.5	31
Members of Supervisory Board and their close family members	0.3	0.3
Total	**31.8**	**31.3**

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

	2018	2017
Members of Board of Directors and their close family members	2.2	0.6
Total	**2.2**	**0.6**

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

	2018	2017
Members of Board of Directors and their close family members	4.2	2.8
Executives	35	12
Total	**39.2**	**14.8**

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

	2018	2017
Members of Board of Directors and their close family members	17	17
Executives and their close family members	79	39.8
Total	**96**	**56.8**

The Members of Board of Directors and their close family members owned credit limit related to other – above not listed – credit card in the amount of HUF 23.8 million and HUF 19 million as at 31 December 2018 and 2017 respectively.

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

	2018	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**
Executives	2	–
Total loans distributed by OTP Bank in its capacity of employee	**2**	**–**

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

	2018	2017
Members of Board of Directors	2,262	2,121
Members of Supervisory Board	202	204
Total	**2,464**	**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. Related party transactions were made on terms equivalent to those that prevail in arm's length transactions and such terms can be substantiated.

NOTE 33: 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 és NBG Leasing d.o.o.	Splitska banka csoport
Cash amounts and due from banks	(25,942)	(16,896)
Placements with other banks, net of loss allowance for placements 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 loss allowance for loans	(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 and other banks	11,372	84,591
Deposits from customers	270,424	840,352
Liabilities from issued securities	–	–
Held-for-trading derivative financial liabilities	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)**

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 34: SIGNIFICANT SUBSIDIARIES AND ASSOCIATES (in HUF mn)

The control is established when the Group has the right and exposure over the variable positive yield of the investee but the same time put up with the consequences of the negative returns and the Group by its decisions is able to influence the extent of the yields.
The Group primarily considering the following factors in the process of determining the existing of the control:

- investigation of the decision making mechanism of the entity,
- authority of the Board of Directors, Supervisory Board and General meeting based on the deed of association,
- existence of investments with preferential voting rights.

If the control can't be obviously determined then it should be supposed that the control does not exist.

Significant influence is presumed by the Group to exist – unless the contrary case is proven – when the Group holds 20% or more of the voting power of an investee but does not have a control.

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

Significant subsidiaries

Name	Ownership (Direct and Indirect)		Activity
	2018	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
OTP Bank Romania S.A. (Romania)	100.00%	100.00%	commercial banking services
OTP banka Srbija a.d. (Serbia)	100.00%	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
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

Significant associates and joint ventures*

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 31 December 2018:

	Szallas.hu Ltd.	D-ÉG Thermoset Ltd.	Company for Cash Services Ltd.	Total
Total assets	2,135	3,883	2,377	**8,395**
Total liabilities	813	4,629	112	**5,554**
Shareholders' equity	1,322	(746)	2,265	**2,841**
Total revenues	4,172	2,386	1,136	**7,694**
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 35: 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.

	2018	2017
The amount of loans managed by the Group as a trustee	38,647	39,413

NOTE 36: CONCENTRATION OF ASSETS AND LIABILITIES

In the percentage of the total assets	2018	2017
Receivables from, or securities issued by the Hungarian Government or the NBH	18.98%	21.69%

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

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.

* Based on unaudited financial statements.

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 37: 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.

	2018	2017
Consolidated net profit for the period attributable to ordinary shareholders (in HUF mn)	318,233	281,142
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	261,816,188	261,743,165
Basic Earnings per share (in HUF)	**1,215**	**1,074**
Consolidated net profit for the period attributable to ordinary shareholders (in HUF mn)	318,233	281,142
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	261,939,080	261,851,512
Diluted Earnings per share (in HUF)	**1,215**	**1,074**
Weighted average number of ordinary shares	280,000,010	280,000,010
Average number of Treasury shares	18,183,822	18,256,845
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS	**261,816,188**	**261,743,165**
Dilutive effects of options issued in accordance with the remuneration policy and convertible into ordinary shares*	122,892	108,347
The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS	**261,939,080**	**261,851,512**

NOTE 38: NET GAIN OR LOSS REALIZED ON FINANCIAL INSTRUMENTS (in HUF mn)

As at 31 December 2018:

	Net interest gain and loss	Net non-interest gain and loss	Loss allowances	Other Comprehensive Income
Cash, amounts due from banks and balances with the National Banks	421	–	–	–
Placements with other banks, net of loss allowance for placements	7,248	–	(144)	–
Securities at fair value through profit or loss	–	598	–	–
Securities at fair value through other comprehensive income	37,912	301	820	(22,333)
Loans at amortized cost and at fair value	554,093	19,300	(39,143)	–
Securities at amortized cost	59,899	–	(212)	–
Other assets	3,964	–	–	–
Derivative financial instruments	25,634	9,409	–	–
Amounts due to banks , the Hungarian Government, deposits from the National Banks and other banks	(8,804)	–	–	–
Deposits from customers	(47,132)	197,547	–	–
Liabilities from issued securities	(6,343)	–	–	–
Subordinated bonds and loans	(2,169)	–	–	–
Total	**624,723**	**227,155**	**(38,679)**	**(22,333)**

* Both in year 2018 and 2017 the dilutive effect is in connection with the Remuneration Policy and the Management Option Program.

As at 31 December 2017:

	Net interest gain and loss	Net non-interest gain and loss	Loss allowances	Other Comprehensive Income
Cash, amounts due from banks and balances with the National Banks	1,444	–	–	–
Placements with other banks, net of loss allowance for placements	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 39: 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 39. d) for more information about fair value classes applied for financial assets and liabilities measured at fair value in these financial statements.

To provide a reliable estimate of the fair value of those financial instrument that are originally measured at amortized cost, the Group used the discounted cash-flow analyses (loans, placements with other banks, 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 loss allowance for loans measured at discount rate adjustment technique, the discount rate is derived from observed rates of return for comparable assets or liabilities that are traded in the market.

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

a) Fair value of financial assets and liabilities

	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash, amounts due from banks and balances with the National Banks	1,547,272	1,547,272	1,198,045	1,195,075
Placements with other banks, net of loss allowance for placements	420,606	419,458	462,180	474,585
Financial assets at fair value through profit or loss	181,356	181,356	344,417	344,417
Securities at fair value through profit or loss	**77,951**	**77,951**	**259,263**	**259,263**
Fair value of derivative financial assets held for trading	**103,405**	**103,405**	**85,154**	**85,154**
Securities at fair value through other comprehensive income	1,883,849	1,883,849	2,174,718	2,174,718
Loans at amortized cost and at fair value*	8,066,593	8,559,132	6,987,834	7,458,834
Securities at amortized cost	1,740,520	1,810,096	1,310,331	1,419,123
Derivative financial assets designated as hedge accounting	15,201	15,201	10,277	10,277
Other financial assets**	54,666	54,666	53,518	53,518
Financial assets total	**13,910,063**	**14,471,030**	**12,541,320**	**13,130,547**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	392,706	382,041	472,068	464,194
Deposits from customers	11,285,085	11,274,889	10,233,471	10,221,086
Liabilities from issued securities	417,966	488,905	250,320	367,678
Held-for-trading derivative financial liabilities	73,316	73,316	69,874	69,874
Derivative financial liabilities designated as hedge accounting	7,407	7,407	17,199	17,199
Other financial liabilities***	142,663	142,663	122,812	122,812
Subordinated bonds and loans	81,429	72,623	76,028	72,890
Financial liabilities total	**12,400,572**	**12,441,844**	**11,241,772**	**11,335,733**

b) Fair value of derivative instruments

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

The assessment of the hedge effectiveness (both for fair value hedges and cash-flow hedges) to determine the economic relationship between the hedged item and the hedging instrument is accomplished with prospective scenario analysis via different rate shift scenarios of the relevant risk factor(s) of the hedged risk component(s). The fair value change of the hedged item and the hedging instrument is compared in the different scenarios. Economic relationship is justified if the change of the fair value of the hedged item and the hedging instrument are in the opposite direction and the absolute changes are similar amounts. The hedge ratio is determined as the ratio of the notional of the hedged item and the notional of the hedging instrument.

The sources of hedge ineffectiveness are the not hedged risk components (e.g. change of cross currency basis spreads in case of interest rate risk hedges), slight differences in maturity dates and interest payment dates in case of fair value hedges, and differences between the carrying amount of the hedged item and the carrying amount of the hedging instrument in case of FX hedges (e.g. caused by interest rate risk components in the fair value of the hedging instrument).

* Higher discount rate due to the lower yield environment resulted in higher fair value comparing to the carrying values.
** Other financial assets contain trade receivables, prepayments and accrued income and receivables from investment services.
*** Other financial liabilities contain account payables, deferrals and liabilities from investments services.

The summary of the derivatives held for trading and derivatives designated as hedge accounting of the Group are as follows:

	Fair value 2018	Fair value 2017
Interest rate swaps held for trading		
Positive fair value of interest rate swaps held for trading	44,120	33,377
Negative fair value of interest rate swaps held for trading	(27,956)	(30,453)
Foreign exchange swaps held for trading		
Positive fair value of foreign exchange swaps held for trading	31,994	18,047
Negative fair value of foreign exchange swaps held for trading	(27,120)	(14,745)
CCIRS held for trading		
Positive fair value of CCIRS held for trading	12,417	16,976
Negative fair value of CCIRS held for trading	(9,165)	(12,948)
Other derivative contracts held for trading		
Positive fair value of other derivative contracts held for trading	14,874	16,754
Negative fair value of other derivative contracts held for trading	(9,075)	(11,728)
Interest rate swaps designated as fair value hedge		
Positive fair value of interest rate swaps designated as fair value hedge	5,610	6,639
Negative fair value of interest rate swaps designated as fair value hedge	(6,458)	(17,199)
MIRS designated as cash-flow hedge		
Positive fair value of MIRS designated as cash-flow hedge	1,837	–
Negative fair value of MIRS designated as cash-flow hedge	(74)	–
CCIRS designated as fair value hedge		
Positive fair value of CCIRS designated as fair value hedge	4,003	3,638
Negative fair value of CCIRS designated as fair value hedge	(352)	–
Interest rate swaps designated as cash-flow hedge		
Positive fair value of interest rate swaps designated as cash-flow hedge	3,751	–
Negative fair value of interest rate swaps designated as cash-flow hedge	(523)	–
Derivative financial assets total	**118,606**	**95,431**
Derivative financial liabilities total	**(80,723)**	**(87,073)**
Derivative financial instruments total	**37,883**	**8,358**

c) Types of hedge accounting

Type of hedge	Type of risk	Type of instrument	Within one month	Within three months and over one month	Within one year and over three months	Within five years and over one year	More than five years	Total
Fair Value Hedge	**Interest rate risk**	**Interest rate swap**						
		HUF						
		Notional	–	–	163,114	289,600	368	**453,082**
		Average Interest Rate (%)	–	–	1.72%	1.73%	1.57%	
		EUR						
		Notional	10	–	–	187	27	**224**
		Average Interest Rate (%)	6.00%	–	–	0.54%	0.58%	
		USD						
		Notional	–	–	6	400	74	**480**
		Average Interest Rate (%)	–	–	2.68%	1.91%	2.22%	
Fair Value Hedge	**FX & IR risk**	**Cross currency interest rate swap**						
		EUR/HUF						
		Notional	–	1	(2)	15	16	**30**
		Average Interest Rate (%)	(1.67%)	(1.58%)	(1.70%)	(1.61%)	(1.63%)	
		Average FX Rate	306.30	310.86	304.09	309.85	308.81	
Fair Value Hedge	**FX risk**	**Cross currency interest rate swap**						
		RON/HUF						
		Notional	–	–	–	1,200	–	**1,200**
		Average FX Rate	–	–	–	68.66	–	
		RUB/HUF						
		Notional	–	–	–	7,000	–	**7,000**
		Average FX Rate	–	–	–	4.23	–	
Fair Value Hedge	**Other**	**Interest rate swap**						
		HUF						
		Notional	–	2,879	1,776	30,479	837	**35,971**
Cash-flow Hedge	**Interest rate risk**	**Interest rate swap**						
		HUF						
		Notional	–	–	–	24,388	56,054	**80,442**
		Average FX Rate	–	–	–	1.77	2.46	

Type of hedge	Type of instrument	Type of risk	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument for the year ended 2018		Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge ineffectiveness for the year ended 2018
				Assets	Liabilities		
Fair value hedge							
	Interest rate swap	Interest rate risk	661,704	2,649	(6,051)	Derivative financial instruments designated as hedge accounting	1,551
	Cross-currency swap	FX & IR risk	12,998	735	(181)	Derivative financial instruments designated as hedge accounting	(160)
	Cross-currency swap	FX risk	115,060	4,003	(170)	Derivative financial instruments designated as hedge accounting	(438)
	Interest rate swap	Other	38,834	1,818	–	Derivative financial instruments designated as hedge accounting	(3)
Cash-flow hedge							
	Interest rate swap	Interest rate risk	173,600	5,588	(597)	Derivative financial instruments designated as hedge accounting	(278)

Type of hedge	Type of risk	Carrying amount of the hedged item for the year ended 2018		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item for the year ended 2018		Line item in the statement of financial position in which the hedged item is included
		Assets	Liabilities	Assets	Liabilities	
Fair value hedges						
Loans	Interest rate risk	25,958	–	(162)	–	Loans
Government bonds	Interest rate risk	1,236,599	–	(2,298)	–	Securities at amortised cost
Government bonds	Interest rate risk	101,707	–	(280)	–	Securities at fair value through other comprehensive income
Government bonds	Interest rate risk	1,891	–	(1,563)	–	Financial assets at fair value through profit or loss
Other securities	Interest rate risk	185,576	–	(68)	–	Securities at fair value through other comprehensive income
Loans	FX & IR risk	13,308	–	7	–	Loans
Loans	FX risk	103,905	–	(590)	–	Loans
Other securities	Other risk	–	(35,716)	–	5,978	Liabilities from issued securities
Fair value hedges total		**1,668,944**	**(35,716)**	**(4,954)**	**5,978**	
Cash-flow hedges						
Loans	Interest rate risk	–	(17)	1,100	–	Due to banks

Type of instrument	Type of risk	Change in the value of the hedging instrument recognised in cash-flow hedge reserve	Hedge effectiveness recognised in profit or loss	Line item in profit or loss that includes hedge ineffectiveness
Interest rate swap	Interest rate risk	(17)	17	Interest income from placements with other banks, net of allowance for placement losses

d) Fair value levels

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly. Fair value measurements – in relation with instruments measured not at fair value – are categorized in level 2;

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

As at 31 December 2018:

	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	180,969	72,676	108,293	–
from this: securities at fair value through profit or loss	77,564	72,377	5,187	–
from this: positive fair value of derivative financial assets held for trading	103,405	299	103,106	–
Securities at fair value through other comprehensive income	1,863,035	1,453,683	398,662	10,690*
Loans mandatorily measured at fair value through profit or loss	34,525	–	–	34,525
Positive fair value of derivative financial assets designated as fair value hedge	9,613	–	9,613	–
Positive fair value of derivative financial assets designated as cash-flow hedge	5,588	–	5,588	–
Financial assets measured at fair value total	**2,093,730**	**1,526,359**	**522,156**	**45,215**
Financial liabilities at fair value through profit or loss	32,231	–	–	32,231
Negative fair value of held-for-trading derivative financial liabilities	73,316	1,294	72,022	–
Negative fair value of derivative financial liabilities designated as fair value hedge	6,810	–	6,810	–
Negative fair value of derivative financial liabilities designated as cash-flow hedge	597	–	597	–
Financial liabilities measured at fair value total	**112,954**	**1,294**	**79,429**	**32,231**

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 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*
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 held-for-trading derivative financial liabilities	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**	**–**

* The portfolio includes Visa Inc. "C" convertible preferred stock and common shares.

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	736	3,146
DSK Bank EAD	2,147	307	2,454
OTP Factoring Ltd.	2,179	84	2,263
OTP banka Hrvatska d.d.	488	578	1,066
OTP Factoring Ukraine LLC	713	(28)	685
OTP Bank Romania S.A.	437	134	571
OTP Banka Slovensko a.s.	385	120	505
Splitska banka d.d.	1,079	(1,079)	-
Total	**9,838**	**852**	**10,690**

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

NOTE 40: 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 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 ex penses, 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:

As at 31 December 2018 HUF 4,136 million tax shield was recognized due to impairment on investment, which affect was partly compensated by HUF 2,903 million release of impairment. Altogether with HUF 5,962 million goodwill impairment on OTP Real Estate Lease Ltd. and Monicomp Ltd. negative tax effect was recognized in the amount of HUF 4,729 million. In year 2017 HUF 1,824 million impairment on investment and HUF 7,384 million release of impairment with HUF 504 million goodwill impairment on OTP Banka Slovensko a.s. altogether resulted in HUF 6,064 million negative tax effect.

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

As at 31 December 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	Adjustments 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)
	a	b	1=a+b 1=2+3+12+16+17	2	3=4+…+11	4	5	6
Net profit for the year	**318,322**		**318,322**					
Adjustments (total)		**(7,014)**	**(7,014)**					
Dividends and net cash transfers (after income tax)		457	457					
Goodwill/investment impairment (after income tax)		(4,729)	(4,729)					
Bank tax on financial institutions (after income tax)		(15,286)	(15,286)					
Effect of acquisition (after income tax)		(6,844)	(6,844)					
Impact of fines imposed by the Hungarian Competition Authority (after income tax)		565	565					
Initial NPV gain on the monetary policy interest rate swap (MIRS) deals (after income tax)		18,823	18,823					
Consolidated adjusted net profit for the year	**318,322**	**7,012**	**325,334**	**180,445**	**122,195**	**16,421**	**24,414**	**47,295**
Profit before income tax	**352,159**	**10,575**	**362,734**	**195,162**	**143,086**	**21,035**	**29,174**	**51,603**
Adjusted operating profit	**391,446**	**(6,537)**	**384,909**	**144,578**	**213,538**	**68,879**	**30,094**	**57,097**
Adjusted total income	964,727	(83,001)	881,726	378,534	449,963	129,900	47,144	107,817
Adjusted net interest income	624,723	(24,892)	599,831	245,934	322,168	102,489	33,040	69,979
Fee and commission income related to lending	22,915	0	22,915	5,482	16,939	10,146	1,530	2,686
Fee and commission income related to deposit and account maintenance	144,942	0	144,942	94,744	51,054	6,274	4,376	16,515
Fee and commission related to bank cards	94,395	0	94,395	65,447	29,511	5,375	4,997	6,649
Fee and commission income related to security trading	19,448	0	19,448	22,452	5,596	1	82	4,340
Other fee and commission income	56,381	(56,958)	(577)	(45,768)	23,317	11,306	3,907	2,828
Fee and commission income	338,081	(56,958)	281,123	142,357	126,417	33,102	14,892	33,018
Fee and commission expenses	(60,405)	14	(60,391)	(35,347)	(24,120)	(6,335)	(3,449)	(2,583)
Adjusted net profit from fees and commissions	277,676	(56,944)	220,732	107,010	102,297	26,767	11,443	30,435
Adjusted other net non-interest income	62,328	–1,165	61,163	25,590	25,498	644	2,661	7,403
Adjusted other administrative expenses	(573,281)	76,464	(496,817)	(233,956)	(236,425)	(61,021)	(17,050)	(50,720)
Total risk costs	**(39,287)**	**13,119**	**(26,168)**	**46,591**	**(70,452)**	**(47,844)**	**(920)**	**(5,494)**
Adjusted provision for impairment on loan and placement losses (without the effect of revaluation of FX)	(39,287)	20,004	(19,283)	48,192	(67,027)	(42,204)	(1,680)	(9,532)
Other provision (adjustment)	0	(6,885)	(6,885)	(1,601)	(3,425)	(5,640)	760	4,038
Total other adjustments (one-off items)*	**0**	**3,993**	**3,993**	**3,993**	**0**	**0**	**0**	**0**
Income tax	**(33,837)**	**(3,563)**	**(37,400)**	**(14,717)**	**(20,891)**	**(4,614)**	**(4,760)**	**(4,308)**
Total Assets	**14,590,288**	**0**	**14,590,288**	**8,563,425**	**7,358,790**	**707,593**	**391,240**	**2,381,275**
Total Liabilities	**12,763,631**	**0**	**12,763,631**	**7,001,737**	**6,217,042**	**559,595**	**333,419**	**1,927,384**

( ) used at: provisions, impairment and expenses.

* One-off item in the total amount consists the result of the treasury share swap agreement at OTP Core.

	OTP Bank Romania S.A. (Romania)	OTP banka Srbija a.d. and Vojvodjanska banka a.d. (Serbia)	OTP banka Hrvatska 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**
	7	8	9	10	11	12=13+14+15	13	14	15	16	17
	3,850	**2,999**	**24,960**	**43**	**2,213**	**15,976**	**9,828**	**4,159**	**1,989**	**6,189**	**526**
	4,901	**3,137**	**30,598**	**99**	**2,539**	**16,840**	**9,780**	**4,572**	**2,488**	**6,924**	**718**
	10,585	**6,227**	**35,455**	**2,597**	**2,604**	**18,902**	**10,180**	**4,447**	**4,275**	**6,924**	**961**
	30,759	30,306	78,295	15,013	10,729	53,364	20,261	7,653	25,450	7,350	(7,489)
	23,410	20,514	54,059	11,148	7,529	23,269	19,043	31	4,195	7,350	1,110
	706	317	751	777	26	667	667	0	0	0	(174)
	2,513	5,662	10,748	2,483	2,483	57	57	0	0	0	(913)
	1,671	1,832	5,962	985	2,040	0	0	0	0	0	(565)
	0	93	1,021	7	52	0	0	0	0	0	(8,601)
	787	643	2,750	745	351	22,927	859	14,409	7,659	0	(1,053)
	5,677	8,547	21,232	4,997	4,952	23,651	1,583	14,409	7,659	0	(11,306)
	(2,114)	(1,262)	(5,190)	(1,462)	(1,725)	(10,997)	(704)	(6,566)	(3,727)	0	10,072
	3,563	7,285	16,042	3,535	3,227	12,654	879	7,843	3,932	0	(1,234)
	3,786	2,507	8,194	330	(27)	17,441	339	(221)	17,323	0	(7,365)
	(20,174)	(24,079)	(42,840)	(12,416)	(8,125)	(34,462)	(10,081)	(3,206)	(21,175)	(426)	8,450
	(5,684)	**(3,090)**	**(4,857)**	**(2,498)**	**(65)**	**(2,062)**	**(400)**	**125**	**(1,787)**	**0**	**(243)**
	(4,794)	(3,146)	(3,046)	(2,579)	(46)	(145)	(174)	0	29	0	(301)
	(890)	56	(1,811)	81	(19)	(1,917)	(226)	125	(1,816)	0	58
	0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
	(1,051)	**(138)**	**(5,638)**	**(56)**	**(326)**	**(864)**	**48**	**(413)**	**(499)**	**(735)**	**(192)**
	771,968	**590,166**	**1,837,158**	**454,498**	**224,892**	**919,149**	**605,279**	**19,461**	**294,409**	**2,147,905**	**(4,398,983)**
	711,922	**505,318**	**1,568,032**	**425,116**	**186,256**	**686,953**	**555,596**	**2,690**	**128,667**	**1,065,755**	**(2,207,856)**

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	Adjustments 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)
	a	b	1=a+b 1=2+3+12+16+17	2	3=4+...+11	4	5	6
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)					
Effect of acquisition (after income tax)		17,708	17,708					
Impact of fines imposed by the Hungarian Competition Authority (after income tax)		177	177					
Consolidated adjusted net profit for the year	**281,339**	**2,733**	**284,072**	**168,576**	**96,652**	**20,381**	**14,120**	**47,121**
Profit before income tax	**322,842**	**(1,421)**	**321,421**	**185,562**	**115,015**	**26,079**	**17,074**	**52,041**
Adjusted operating profit	**363,690**	**(531)**	**363,159**	**150,834**	**192,737**	**64,497**	**18,876**	**61,460**
Adjusted total income	863,140	(58,195)	804,945	365,592	398,148	127,249	34,595	108,290
Adjusted net interest income	553,756	(7,102)	546,654	234,304	289,639	103,094	23,060	72,257
Fee and commission income related to lending	26,168	0	26,168	10,162	15,669	8,337	1,004	3,544
Fee and commission income related to deposit and account maintenance	126,280	0	126,280	84,843	41,942	6,303	4,045	14,500
Fee and commission related to bank cards	84,282	0	84,282	60,066	24,338	5,662	3,663	5,891
Fee and commission income related to security trading	25,005	0	25,005	28,007	4,795	1	68	3,902
Other fee and commission income	53,871	(51,770)	2,101	(41,480)	20,171	10,055	3,166	2,526
Fee and commission income	315,606	(51,770)	263,836	141,598	106,915	30,358	11,946	30,363
Fee and commission expenses	(54,413)	5	(54,408)	(32,469)	(21,462)	(7,223)	(2,230)	(2,649)
Adjusted net profit from fees and commissions	261,193	(51,765)	209,428	109,129	85,453	23,135	9,716	27,714
Adjusted other net non-interest income	48,191	672	48,863	22,159	23,056	1,020	1,819	8,319
Adjusted other administrative expenses	(499,450)	57,664	(441,786)	(214,758)	(205,411)	(62,752)	(15,719)	(46,830)
Total risk costs	**(40,848)**	**(4,835)**	**(45,683)**	**30,783**	**(77,722)**	**(38,418)**	**(1,802)**	**(9,419)**
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)
Other provision (adjustment)		(14,624)	(14,624)	(2,803)	(10,615)	(857)	(742)	(5,848)
Total other adjustments (one-off items)1		**3,945**	**3,945**	**3,945**	**0**	**0**	**0**	**0**
Income tax	**(41,503)**	**4,154**	**(37,349)**	**(16,986)**	**(18,363)**	**(5,698)**	**(2,954)**	**(4,920)**
Total Assets	**13,190,228**	**0**	**13,190,228**	**7,704,135**	**6,488,032**	**671,724**	**312,334**	**1,925,740**
Total Liabilities	**11,550,173**	**0**	**11,550,173**	**6,273,879**	**5,635,488**	**529,369**	**278,254**	**1,675,445**

( ) used at: provisions, impairment and expenses.

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

	OTP Bank Romania S.A. (Romania)	OTP banka Srbija a.d. and Vojvodjanska banka a.d. (Serbia)	OTP banka Hrvatska 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**
	7	8	9	10	11	12=13+14+15	13	14	15	16	17
	3,035	**(2,905)**	**17,107**	**(2,051)**	**(156)**	**18,062**	**9,836**	**8,678**	**(452)**	**195**	**587**
	3,951	**(3,014)**	**20,849**	**(1,820)**	**(145)**	**19,894**	**10,453**	**9,500**	**(59)**	**584**	**366**
	9,345	**1,360**	**28,781**	**6,616**	**1,802**	**16,655**	**8,410**	**9,229**	**(984)**	**3,114**	**(181)**
	27,137	10,071	63,645	17,452	9,709	46,095	18,013	12,450	15,632	3,407	(8,297)
	19,779	7,235	44,313	13,358	6,543	19,187	16,887	47	2,253	3,407	117
	687	254	584	927	332	576	576	0	0	0	(239)
	2,310	1,717	8,172	2,610	2,285	59	59	0	0	0	(563)
	1,394	710	4,515	741	1,762	0	0	0	0	0	(121)
	0	11	774	7	32	0	0	0	0	0	(7,797)
	696	332	2,414	647	335	24,865	613	19,208	5,044	0	(1,456)
	5,087	3,024	16,459	4,932	4,746	25,500	1,248	19,208	5,044	0	(10,176)
	(2,024)	(749)	(3,855)	(1,305)	(1,427)	(10,157)	(939)	(6,782)	(2,436)	0	9,679
	3,063	2,275	12,604	3,627	3,319	15,343	309	12,426	2,608	0	(497)
	4,295	561	6,728	467	(153)	11,565	817	(23)	10,771	0	(7,917)
	(17,792)	(8,711)	(34,864)	(10,836)	(7,907)	(29,440)	(9,603)	(3,221)	(16,616)	(293)	8,116
	(5,394)	**(4,374)**	**(7,932)**	**(8,436)**	**(1,947)**	**3,239**	**2,043**	**271**	**925**	**(2,530)**	**547**
	(5,062)	(3,133)	(7,498)	(8,358)	(864)	(1,921)	1,951	0	(30)	0	541
	(332)	(1,241)	(434)	(78)	(1,083)	1,318	92	271	955	(2,530)	6
	0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
	(916)	**109**	**(3,742)**	**(231)**	**(11)**	**(1,832)**	**(617)**	**(822)**	**(393)**	**(389)**	**221**
	624,060	**482,887**	**1,821,613**	**452,084**	**197,590**	**813,667**	**528,453**	**23,095**	**262,119**	**1,674,411**	**(3,490,017)**
	570,578	**402,817**	**1,582,678**	**419,884**	**176,463**	**603,149**	**488,288**	**2,845**	**112,016**	**826,037**	**(1,788,380)**

NOTE 41: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2018

Term Note Program

See details in Note 16.

NOTE 42: 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 first half year of 2019 subject to obtaining all the necessary regulatory approvals.

2) New acquisition in Bulgaria

The financial closure of the transaction, based on the acquisition agreement on purchasing 99.74% shareholding of Societe Generale Expressbank ("SGEB"), the Bulgarian subsidiary of Societe Generale Group ("SG"), and other local subsidiaries held by SGEB, between Societe Generale Group and DSK Bank EAD ("DSK Bank"), the Bulgarian subsidiary of OTP, has been completed on 15 January 2019. The acquisition agreement between SG and DSK Bank was signed on 1 August 2018. With a market share of approximately 6.4% 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. The integration process is expected to be completed in 2020.

3) New acquisition in Moldova

On 5 February, 2019 the Bank signed an acquisition agreement on purchasing 87.85% shareholding of Mobiasbanca – Groupe Societe Generale S.A. ("SGMB"), the Moldovan subsidiary of Societe Generale Group. With a market share of 13.3%, SGMB is the 4th largest bank on the Moldovan banking market and as a universal bank it has been active in the retail and corporate segment as well. The financial closure of the transaction is expected in the coming months subject to obtaining all the necessary regulatory approvals.

4) New acquisition in Serbia

On 19 December, 2018 the Bank signed an acquisition agreement on purchasing 100% shareholding of Societe Generale Banka Srbija a.d. ("SGS"), the Serbian subsidiary of Societe Generale Group and all subsidiaries held by SGS. With a market share of 8.4% based on total assets, SGS is the 4th largest bank on the Serbian 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 first half year of 2019 subject to obtaining all the necessary regulatory approvals.

5) New acquisition in Montenegro

Crnogorska komercijalna banka a.d., the Montenegrin subsidiary of OTP signed an acquisition agreement on purchasing 90.56% shareholding of Societe Generale banka Montenegro a.d. ("SGM"), the Montenegrin subsidiary of Societe Generale Group. With a market share of 11.5%, SGM is the 4th largest bank on the Montenegrin banking market and as a universal bank it has been active in the retail and corporate segment as well. The financial closure of the transaction is expected in the coming months subject to obtaining all the necessary regulatory approvals.

NOTE 43: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE GROUP'S FINANCIALS

The **eurozone's** annual growth rate slowed to 1.8% in 2018 according to preliminary data, down from a sky-rocketing 2.5% on yearly basis performance in 2017, and the storm clouds never stop gathering – in the form of intensifying trade war, the politics of Italy's new government, the faltering Brexit talks, the new emission rules in the auto industry, and Turkey's problems. At the beginning of 2018, the modest growth figures could be attributed to one-off or country-specific factors (e.g. the several-week-long railway strikes in France), it was not before the second half of the year when it became clear that the performance in year 2018 would be nowhere near the previous year's one, and the annualized quarterly growth rate slowed to less than 1% by the second half of the year. Based on the currently available data, the moderate performance owes a lot to the core countries, particularly Germany and Italy. Dancing on thin ice, Italy became less worrisome by the end of the year, but its new government still plans a string of fiscal loosening measures, and the resulting increase in public debt is not in sync with the EU's requirements, moreover, investors' confidence in financing the country's debt has wobbled. Although the EU's decision-makers approved the Brexit agreement drafted in November, the House of Commons of the UK Parliament rejected the bill several times, even though EU leaders repeatedly ruled out re-opening talks into the deal.

At the end of 2018, the European Central Bank ("ECB") phased out its asset purchase programme and thus launched the second monetary tightening – but seeing the eurozone's growth data, interest rate hikes – previously supposed to take place in the second half of 2019 – now seem unlikely, and the ECB will be cautious about further tightening monetary conditions.

The growth rate in the **United States** may have been around 3% in 2018, but it is likely to slow in the near future. This is partly because the effect of the tax cut programme, which used to fuel growth, is now fading; besides, the trade war left its mark on the economy's performance, and its resolution is making no progress, despite the on-going negotiations. Thus the USA's import tariffs on Chinese goods worth USD 100 billion remain in place. Following the autumn elections, Republicans retained majority in Senate, but Democrats gained the upper hand in the House of Representatives. It did not take long for the two parties to clash, over the funding of the wall planned on the Mexican border, ultimately resulting in more-than-one-month-long government shutdown.

Meanwhile the Fed raised the benchmark rate four times in 2018 (to 2.25–2.5), but the post-meeting statements' language became increasingly cautious about the future schedule of tightening. In January 2019, the communication shifted markedly, by pointing out that in the light of global economic and financial events, central bankers will be flexible about unwinding the Fed's balance sheet and will be cautious in continuing the tightening cycle – this makes rate hikes in 2019 unlikely, and the reducing the balance sheet will be reduced slower than earlier planned.

Despite the fast deterioration in the external environment, **Hungary's** full-year 2018 GDP growth rate surpassed expectations and our own forecast. The 4.8% growth rate marks the second fastest one in the history of Hungary (surpassed only in 2004) and in comparison to its regional peers (preceded by Poland only). Just like in 2017, this robust growth was largely driven by domestic demand – consumption expanded by 5%, and investment surged 17%, equally benefiting from EU-co-financed public investment projects and capacity-boosting private investment.

Following the peak in 2016, Hungary's current account surplus shrank further. Based on the latest figures, the surplus may have decreased to 1.3% of GDP, down from 6.3% in 2016 and 3.2% in 2017. Reasons include higher crude prices, the deterioration in Europe's business cycle, the subsiding exports owing to the new WLTP (Worldwide Harmonized Light Vehicles Test Procedure) measure, the rising import need of the strong domestic demand, and foreign-owned companies' higher profits also worsen the balance of income. Nevertheless, Hungary's net financing capacity still runs surplus, its net foreign direct investment inflow is positive, and net annual debt repayment reaches 3–4% of GDP. External debt is still shrinking, but it is average-sized in regional comparison.

Regarding Hungary's labour market, the trend that began in 2017 continued last year. Employment grew further and the unemployment rate fell to 3.7%. The shortage of labour causes capacity constraints in some segments of the labour market. Gross wages grew by more than 10% on yearly basis in the first 11 months of the year, but the accelerating inflation reduced real wages in the second half of the year, which left its mark on retail sales' growth pace as well.

By the third quarter of 2018, Hungary's accrual-based four-quarter government deficit fell to 1.9% of GDP, thus the 2018 balance may have been around 2.2% of GDP, less than the official target of 2.4%. The central budget received more than HUF 1,000 billion EU funding in the fourth quarter, thus public debt may have shrunk to 71% of GDP by the end of the year.

Consumer prices grew by an average of 2.8% in 2018, up from 2.5% a year earlier. Inflation was a result of opposing effects. On the one hand, the combination of robust domestic demand, the wage growth caused by the tight labour market, an increase in seasonal food prices, and a pick-up in oil prices in the second half of the year have temporarily sent the consumer price index above 3%, but then oil prices declined, second-hand-car prices fell owing to the diesel emission scandal, and the base effects in some food products all dragged inflation down.

In line with the world's leading central banks, the tightening cycle began in some countries in Central and Eastern Europe (Romania and the Czech Republic). In the second half of 2018, the NBH's communication included multiple changes that pointed towards tightening the extremely loose monetary conditions – but no measures followed them.

The NBH's September meeting brought some change, when the central bank announced that, by transforming its monetary policy tools, the NBH is prepared for the gradual and cautious normalization of monetary policy: it abandoned 3-month deposit facility and the required reserve became the benchmark tool, ended the monetary policy interest rates swap ("MIRS") and the mortgage bond purchase program, but the FX-swap volume was not fully wound down. As a new tool, the Funding for Growth fixed scheme was introduced, with an aim to increase the share of fixed-interest rate loans within the small and medium enterprises sector.
As the global environment is likely to remain volatile, we expect the Central and Eastern Europe region's currency rates to see-saw, but the depreciation pressure on the forint is likely to ease. This January the NBH gave another strong signal, which points toward the beginning of the tightening, but the unpredictability of the external environment may provide reason for putting off normalization. The NBH's most recent forecast is based on 3.5% economic growth and 2.9% consumer price index for 2019.

The economy of **Russia** grew by 2.3% in 2018, beating market expectations by a large margin. Even though households' consumption slowed as the fiscal adjustment eroded their incomes, exports increased by a fairly robust rate of 6.3%. This latter benefited from a strong expansion in the export of mining products and cereals. Meanwhile, the accelerating construction output supported gross capital formation. Price pressure intensified as inflation accelerated from 2.3% in June to 4.3% in December. This is mostly because of the higher food prices, as harvest in 2018 deteriorated from the previous year. Meanwhile Russia ran a budget surplus of 2.7% of GDP, for the first time since 2008, thanks to an increase in oil prices compared to 2017, and as a result of the stringent budget. Simultaneously, the current account surplus hit a record high at 7% of GDP. The growing FX revenues have boosted international reserves (to USD 468 billion by the end of the year) and helped the budget to replenish its reserve fund.

Citing the higher inflationary pressure and risk premium, the Central Bank of Russia embarked on a monetary tightening in the second half of 2018. The VAT hike in 2019 may send inflation much higher than the central bank's target of 5–5.5%. In addition, the new American sanctions added to the risk premium on Russian assets, causing a depreciation pressure on the currency market, which the Central Bank of Russia also took into consideration.

Looking forward, Russia's GDP growth rate is likely to slow to 1.8% this year, as the VAT hike adversely affects retail consumption. Meanwhile, exports may slow as Russia's joining OPEC's agreement reduces oil production, while the export of cereals may also drop. Furthermore, the strict fiscal and monetary policies do not support growth either. Nevertheless, spending on infrastructure is expected to speed up investment. The better-than-expected 2018 figure poses an upside risk to this year's forecast, while any further US sanction would worsen economic outlook.

The biggest problem of Russia's economy is the low diversification of production, and the resulting weak long-term growth potential of 1.5–2%, which is rather low compared to its level of development. Nonetheless, the new three-year budget comes with ambitious reform plans (e.g. infrastructure development, raising the retirement age), the combined effect of which may bring medium-term growth outlook closer to 2%.

Ukraine's economy expanded by around 3% in 2018, with domestic demand being the engine of growth. Although the strong investment dynamics subsided by the second half of the year, the rising wages and the remittances by migrant workers boosted consumption. In the first nine months of the year, consumption surged 7% from the same period of 2017. We expect the economy to have grown by 3.2% in full-year 2018, which may slow to 2.7% by 2019, as both domestic demand and the world economy's growth lose speed.

The rate of inflation had slowed to 10.9% (from 14.5% in 2017), somewhat overshooting the central bank's expectation. Citing this, and also as the risks surrounding the International Monetary Fund ("IMF") programme have increased, the National Bank of Ukraine raised the base rate from 14.5% to 18%. In the first half of the year, the USD/UAH was stable around 26, but the uncertainty about the IMF programme sent it above 28 in August 2018. Since then, the hryvnia has been slowly appreciating.

Despite Ukraine's encouraging growth potential, the refinancing risk of maturing debt remains rather high, particularly in the current global capital market environment, when risk appetite subsided – this makes the continuing of the IMF programme crucial for Ukraine.

The IMF programme that started in 2015 has ended in the second half of 2018 without completing the reform plans. It was replaced by a 1.3-billion-dollar temporary IMF facility that will last until the beginning of 2020, with an aim to secure a stable financing background for Ukraine for the 2019 elections.

From 2017 the base of the **Hungarian** banking tax is the adjusted balance sheet total at the actual calendar year minus two years (i.e. for the 2018 banking tax calculation the end-2016 adjusted total assets must be used). Effective from 2017 the applicable upper tax rate has been moderated to 0.21%. The total annual amount of the banking tax payable in 2018 was already booked in one sum in the first quarter of 2018. From 2018 the bank tax rate further moderated, by 1 basis point to 0.2%.

In 2018 more than 12,000 applications for the Housing Subsidy Scheme for Families (CSOK) subsidy were registered at OTP Bank with a value of over HUF 40 billion.

In accordance with a legislative change effective from 17 October 2018 the state subsidy for new building society contracts was phased out (the subsidy in the case of already existing contracts won't change). Simultaneously, the Government suggested that the potential savings in the central budget would be re-allocated for extending the Housing Subsidy for Families scheme (CSOK). As a result, on 25 October the Government decided on extending the CSOK, in particular families with two children will be eligible for a preferential housing loan in the amount of up to HUF 10 million (with fix 3% interest rate), whereas the original amount of HUF 10 million preferential loan for families with three children will be increased to HUF 15 million. The new conditions came into force from 1 December 2018.

With respect to mortgage lending, one of the most important and spectacular development was the steady and unambiguous rise in the popularity of fixed rate mortgages. At OTP Bank the proportion of fixed rate housing loans (with an interest rate fixation period of at least 5 years) within non-subsidized housing loan applications reached 97% in the fourth quarter of 2018, up from around 50% in 2017 as a whole. It was also positive that in the last several months the applications for mortgages with a repricing period of 10 years or more gained further ground: in the fourth quarter of 2018 the aggregated volume of applications for loans with fixation period of 10 and 20 years was close to 80% within total fixed rate credits. The above developments were stimulated by the deliberate policies taken by the NBH, through the introduction of the certified consumer-friendly housing loans and the amendments to the payment-to-income ("PTI") rules effective from 1 October 2018. In the fourth quarter of 2018 the share of certified customer-friendly mortgages within new fixed rate market-based housing loan applications exceeded 70%.
As for debt brake rules, the NBH decided to amend the regulation on the 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.

According to the decision by the Monetary Council ("MC") of the NBH on 21 November 2017 the MC introduced an unconditional IRS facility, with 5 and 10 years maturity. Counterparty banks could access the IRS facility on regular tenders from the beginning of January 2018.
In line with the fine-tuning of the unconventional policy instruments affecting long-term yields, the on 18 September 2018 MC made a decision to phase out the monetary policy IRS facilities by the end of 2018.
The Council set the annual maximum stock of monetary policy IRS ("MIRS") for 2018 at HUF 1,100 billion.
Until November 2018 – in coordination with the auditor – the initial positive net present value ("NPV") gained on MIRS deals was accrued for the whole maturity of MIRS transactions within the net interest income. In December 2018 NBH published guidelines on its website, according to which those swap facilities were unconditional, therefore in NBH's opinion there was no such binding criteria within the conditions that would require the accrual of NPVs.
Taking into consideration the NBH's guidelines, OTP – with the consent of the auditor – decided to book the total initial positive NPVs in one lump sum within its statement of profit or loss, which was HUF 20.7 billion before tax gain (HUF 18.8 billion after tax).

Deloitte.

Deloitte Auditing and Consulting Ltd.
H-1068 Budapest,
Dózsa György út 84/C, Hungary
H-1438 Budapest,
P.O.Box 471, Hungary

Phone: +36 (1) 428-6800
Fax: +36 (1) 428-6801
www.deloitte.hu

Registered by the Capital Court of Registration
Company Registration Number: 01-09-071057

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of OTP Bank Plc.

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of OTP Bank Plc. (the "Bank") for the year 2018 which comprise the separate statement of financial position as at December 31, 2018 – which shows total assets of HUF 8,506,188 million –, and the related separate statement of profit or loss, separate statement of comprehensive income – which shows a net profit for the period of HUF 173,442 million –, separate statement of changes in equity and separate statement of cash-flows for the year then ended and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of the Bank as at December 31, 2018 and of its financial performance and its cash-flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (the "EU IFRS"), and the separate financial statements were prepared in all material respects in accordance with the provisions of the effective Hungarian Act C of 2000 on Accounting (the "Accounting Act") relevant to the entities preparing separate financial statements in accordance with EU IFRS.

Basis for Opinion

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

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

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

Key Audit Matters

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

Key audit matter	How our audit addressed the matter
Calculation of expected credit losses on corporate and retail loans	
(See notes 8., 24., and 28.1. to the separate financial statements for the details) As described in the notes to the financial statements, the impairment losses have been determined in accordance with IFRS 9 *Financial Instruments*, which is a new accounting standard which requires significant professional judgement to determine the expected credit losses ("ECLs"). At the year end, the Company reported total gross loans of HUF 2,680,533 million and provisions for impairment on loan losses of HUF 66,253 million. The determination of the ECL of loans is considered a key audit matter, as it requires application of professional judgement and use of subjective assumptions by management in case of both the application of portfolio based collective impairment models, and determination of individual specific loan loss provision. The most significant assumptions applied in determining the impairment are the following: - The interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Bank's expected credit loss model; - IFRS 9 credit risk staging methodology and application, including the identification of exposures with a significant deterioration in credit quality; - model used for impairment calculations reflecting the characteristics of the portfolio, such as valuation of collateral, probability of default and recovery rates, macroeconomic factors; - the application of assumptions, where there was limited or incomplete data; and - estimation of future cash-flows expected to be realized, including application of scenarios and scenario weights.	Our response as auditors included: - assessment and testing of the modelling techniques and methodology applied by the Bank in order to estimate ECLs, and evaluation of its compliance with the requirements of IFRS 9; - evaluating the design and testing of the operating effectiveness of internal controls over timely identification of exposures with significant increase in credit risk, monitoring of credit impaired exposures, and calculating, and recording of loan loss provision; - assessing the collective model methodology and testing the calculations in terms of risk parameters (probability of default – PD, loss given default – LGD, expected credit loss – ECL, and macroeconomic factors) applied by the collective models including involving our specialists; - involving our actuarial and valuation experts to assist us in re-performing the calculation of the loss allowance and independently assessing the appropriateness of the assumptions used, the impairment methodologies and policies applied; - assessing on a sample basis, whether the staging and impairment triggers are captured appropriately and whether the estimation of the impairment is reasonable; - sample based testing of individual provision, including the assessment of valuation of collateral and estimation of expected future cash-flows, application of different scenarios and scenario weights and forming an independent view of the adequacy of the loss allowance; and - assessment of the accuracy of the disclosures in the financial statements.

2/6

Key audit matter	How our audit addressed the matter
Valuation of investments	
(See note 9. to the separate financial statements for the details) The Bank performed several acquisitions in prior years, and as a result of these acquisitions a net amount of HUF 1,177,573 million of investments is presented in the separate statement of financial position. As required by the applicable accounting standards, management conducts regular impairment tests to assess whether there is a need to record impairment with respect to the investments. These impairment tests take into account several material assumptions and the professional judgement of management, including in respect of discount rates applied, growth rates, cost levels and future risk costs. Accordingly, the valuation of investments is considered to be a key audit matter.	Our response as auditors included: - the assessment of the appropriateness of the assumptions applied by management; - testing the inputs to and reviewing the valuation models applied by management together with the applied assumptions with the involvement of our valuation experts; - evaluating whether the management plans and the resulting cash-flow forecasts are in accordance with historical results, including the performance of sensitivity analysis on the key parameters of the models when needed; and - considering the appropriate application of the relevant accounting standards, the related journal entries and disclosures with regards to recording impairment and its release.

Other Information

Other information comprises the information included in the section called "Management's Analysis" of the annual report and the business report of the Bank for 2018, which we obtained prior to the date of this auditor's report, and the sections called "Message to the shareholders", "Corporate Governance" and "Macroeconomic and financial environment in 2018" of the annual report, which is expected to be made available to us after that date, but does not include the separate financial statements and our independent auditor's report thereon. Management is responsible for the other information and for the preparation of the business report in accordance with the relevant provisions of the Accounting Act and other regulations. Our opinion on the separate financial statements provided in the section of our independent auditor's report entitled "Opinion" does not apply to the other information.

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

3/6

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

In our opinion, the business report of the Bank for 2018 corresponds to the separate financial statements of the Bank for 2018 and the relevant provisions of the Accounting Act in all material respects. The information referred to in Section 95/B. (2) a)-d), g) and h) of the Accounting Act has been provided and the business report contains the non-financial statement provided for in Section 95/C.

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

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

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

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

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

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

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

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

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

4/6

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

We also:

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment of the Auditor and the Period of Engagement
We were appointed as the auditors of the Bank by the General Meeting of Shareholders on April 13, 2018 and our uninterrupted engagement has lasted for 26 years.

Consistence with the Additional Report to the Audit Committee
We confirm that our audit opinion on the separate financial statements expressed herein is consistent with the additional report to the Audit Committee of the Bank, which we issued on March 8, 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

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

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

Budapest, March 18, 2019

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

dr. Hruby Attila
Statutory registered auditor
Registration number: 007118

6/6

Statement of financial position

(separate, based on IFRS, as at 31 December 2018, in HUF million)

	Note	2018	2017
Cash, amounts due from banks and balances with the National Bank of Hungary	4	360,855	399,124
Placements with other banks, net of allowance for placement losses	5	1,074,840	978,098
Financial assets at fair value through profit or loss	6	155,042	303,927
Securities at fair value through other comprehensive income	7	1,451,905	1,735,902
Loans	8	2,618,863	2,145,046
Investments in subsidiaries, associates and other investments	9	1,177,573	967,414
Securities at amortised cost	10	1,431,789	1,043,779
Property and equipment	11	70,442	65,286
Intangible assets	11	39,883	32,877
Investment properties	12	2,333	2,374
Derivative financial assets designated as hedge accounting	13	12,221	10,148
Deferred tax assets	13	1,241	7,991
Other assets	13	109,201	79,916
TOTAL ASSETS		**8,506,188**	**7,771,882**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	14	738,036	694,533
Deposits from customers	15	5,741,498	5,192,869
Liabilities from issued securities	16	46,694	60,304
Financial liabilities at fair value through profit or loss	17	32,231	–
Held for trading derivative financial liabilities	18	82,838	79,545
Derivative financial liabilities designated as hedge accounting	19	6,925	17,179
Other liabilities	19	236,570	193,360
Subordinated bonds and loans	20	110,454	108,835
TOTAL LIABILITIES		**6,995,246**	**6,346,625**
Share capital	21	28,000	28,000
Retained earnings and reserves	22	1,484,906	1,406,797
Treasury shares	23	(1,964)	(9,540)
TOTAL SHAREHOLDERS' EQUITY		**1,510,942**	**1,425,257**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**8,506,188**	**7,771,882**

Budapest, 8 March 2019

The accompanying notes to separate financial statements on pages 198 to 280 form an integral part of these separate financial statements.

Statement of profit or loss

(separate, based on IFRS, for the year ended 31 December 2018, in HUF million)

	Note	2018	2017
Interest Income			
Loans		141,536	120,960
Placements with other banks, net of allowance for placement losses		69,947	47,776
Securities at fair value through other comprehensive income		31,628	30,100
Securities at amortised cost		47,342	44,737
Amounts due from banks and balances with National Bank of Hungary		280	1,403
Total Interest Income		**290,733**	**244,976**
Interest Expense			
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks		(53,993)	(56,893)
Deposits from customers		(26,634)	(9,244)
Liabilities from issued securities		(157)	(151)
Subordinated bonds and loans		(2,994)	(3,033)
Total Interest Expense		**(83,778)**	**(69,321)**
NET INTEREST INCOME		**206,955**	**175,655**
Loss allowance on loan and placement losses	5, 8, 24	(7,822)	(7,775)
NET INTEREST INCOME AFTER LOSS ALLOWANCE ON LOAN AND PLACEMENT LOSSES		**199,133**	**167,880**
Income from fees and commissions	25	212,556	206,759
Expenses from fees and commissions	25	(34,339)	(30,355)
Net profit from fees and commissions		**178,217**	**176,404**
Foreign exchange gains		9,510	4,555
Gains on securities, net		1,960	7,946
Losses on loans at fair value through profit or loss		625	–
Gains on derivative instruments, net		3,706	2,030
Dividend income	9	68,481	82,638
Other operating income	26	5,179	9,990
Net other operating expenses	**26**	**(5,023)**	**71,359**
Net operating expense		84,438	178,518
Personnel expenses	26	(104,819)	(90,444)
Depreciation and amortization	26	(21,232)	(20,486)
Other administrative expenses	**26**	**(151,104)**	**(141,455)**
Other administrative expenses		**(277,155)**	**(252,385)**
PROFIT BEFORE INCOME TAX		184,633	270,417
Income tax expense	**27**	**(11,191)**	**(18,867)**
NET PROFIT FOR THE PERIOD		173,442	251,550
Earnings per share (in HUF)			
Basic	**35**	**621**	**902**
Diluted	**35**	**621**	**902**

Statement of comprehensive income

(separate, based on IFRS, for the year ended 31 December 2018, in HUF million)

	Note	2018	2017
NET PROFIT FOR THE PERIOD		**173,442**	**251,550**
Items that may be reclassified subsequently to profit or loss			
Fair value adjustment of securities at fair value through other comprehensive income		(28,868)	18,174
Deferred tax related to fair value adjustment of securities at fair value though other comprehensive income	27	2,771	(1,636)
Fair value adjustment of Cash-flow hedge		**949**	**–**
Total		**(25,148)**	**16,538**
NET COMPREHENSIVE INCOME		**148,294**	**268,088**

The accompanying notes to separate financial statements on pages 198 to 280 form an integral part of these separate financial statements.

Statement of changes in equity

(separate, based on IFRS, for the year ended 31 December 2018, in HUF million)

	Note	Share Capital	Capital reserve	Share-based payment	Retained earnings	Other Comprehensive Income	Other reserves	Put option reserve	Treasury Shares	Total
Balance as at 1 January 2017		**28,000**	**52**	**28,237**	**1,132,360**	**53,662**	**34,289**	**(55,468)**	**(8,709)**	**1,212,423**
Net profit for the period		–	–	–	251,550	–	–	–	–	251,550
Other comprehensive income		–	–	–	–	16,538	–	–	–	16,538
Total comprehensive income		–	–	–	251,550	16,538	–	–	–	268,088
Transfer to general reserve		–	–	–	(25,155)	–	25,155	–	–	–
Share-based payment	31.	–	–	3,598	–	–	–	–	–	3,598
Payments to ICES holders		–	–	–	(1,519)	–	–	–	–	(1,519)
Sale of treasury shares	23.	–	–	–	–	–	–	–	12,679	12,679
Acquisition of treasury shares	23.	–	–	–	–	–	–	–	(13,510)	(13,510)
Loss on sale of treasury shares		–	–	–	(3,302)	–	–	–	–	(3,302)
Dividend for the year 2016		–	–	–	(53,200)	–	–	–	–	(53,200)
Other transaction with owners		**–**	**–**	**3,598**	**(83,176)**	**–**	**25,155**	**–**	**(831)**	**(55,254)**
Balance as at 1 January 2018		**28,000**	**52**	**31,835**	**1,300,734**	**70,200**	**59,444**	**(55,468)**	**(9,540)**	**1,425,257**
Effect of transition to application of IFRS 9		–	–	–	(5,364)	389	–	–	–	(4,975)
Balance as at 1 January 2018 in accordance with IFRS 9		**28,000**	**52**	**31,835**	**1,295,370**	**70,589**	**59,444**	**(55,468)**	**(9,540)**	**1,420,282**
Net profit for the period		–	–	–	173,442	–	–	–	–	173,442
Other comprehensive income		–	–	–	–	(25,148)	–	–	–	(25,148)
Total comprehensive income		**–**	**–**	**–**	**173,442**	**(25,148)**	**–**	**–**	**–**	**148,294**
Transfer to general reserve		–	–	–	(17,344)	–	17,344	–	–	–
Share-based payment	31.	–	–	3,797	–	–	–	–	–	3,797
Payments to ICES holders		–	–	–	(1,256)	–	–	–	–	(1,256)
Sale of treasury shares	23.	–	–	–	–	–	–	–	21,814	21,814
Acquisition of treasury shares	23.	–	–	–	–	–	–	–	(14,238)	(14,238)
Loss on sale of treasury shares		–	–	–	(6,431)	–	–	–	–	(6,431)
Dividend for the year 2017		–	–	–	(61,320)	–	–	–	–	(61,320)
Other transaction with owners		**–**	**–**	**3,797**	**(86,351)**	**–**	**17,344**	**–**	**7,576**	**(57,634)**
Balance as at 31 December 2018		**28,000**	**52**	**35,632**	**1,382,461**	**45,441**	**76,788**	**(55,468)**	**(1,964)**	**1,510,942**

The accompanying notes to separate financial statements on pages 198 to 280 form an integral part of these separate financial statements.

Statement of cash-flows

(separate, based on IFRS, for the year ended 31 December 2018, in HUF million)

	Note	2018	2017
OPERATING ACTIVITIES			
Profit before income tax		**184,633**	**270,417**
Net accrued interest		1,586	(4,682)
Depreciation and amortization	11	21,232	20,529
Loss allowance on loan and placement losses	5,8, 24	7,822	7,775
Release of loss allowance on securities at fair value through other comprehensive income		(553)	–
Loss allowance/(Release loss allowance) on investments in subsidiaries	9	4,436	(65,200)
Loss allowance on securities at amortised cost		191	–
Release of loss allowance on other assets	13	(10,078)	(25,664)
(Release of provision)/Provision on off-balance sheet commitments and contingent liabilities	19	(4,343)	4,462
Share-based payment	31	3,797	3,598
Unrealised gains on fair value adjustment of securities measured at fair value through profit or loss and held for trading		(13,528)	(18,335)
Unrealised losses on fair value adjustment of derivative financial instruments		16,903	12,458
Net changes in assets and liabilities in operating activities			
Changes in held for trading derivative and other financial assets	6	51,078	(128,454)
Changes in securities measured at fair value through profit or loss	6	(20,658)	–
Changes in held for trading derivatives and other financial liabilities	6	6,503	(4,700)
Net increase in loans	8	(487,561)	(251,942)
(Increase)/Decrease in other assets, excluding advances for investments and before provisions for losses	13	(11,468)	44,179
Net increase in deposits from customers	15	548,626	445,079
Increase/(Decrease) in other liabilities	19	46,090	(33,068)
Net increase in the compulsory reserve established by the National Bank of Hungary	4	(6,227)	(2,690)
Dividend income		(63,198)	(82,638)
Net cash provided by operating activities		**275,283**	**191,124**
INVESTING ACTIVITIES			
Net decrease in placements with other banks before allowance for placement losses	5	(95,933)	(61,583)
Purchase securities at fair value through other comprehensive income	7	(848,937)	(560,772)
Proceeds from sale of securities at fair value through other comprehensive income	7	1,194,838	322,019
Change in derivative financial instruments designated as hedge accounting		1,180	–
Increase in investments in subsidiaries	9	(214,595)	(233,345)
Dividend income		65,570	80,017
Increase in securities at amortised cost	10	(455,497)	(273,845)
Redemption of securities at amortised cost	10	70,422	86,740
Additions to property, equipment and intangible assets	11	(36,836)	(36,316)
Disposal of property, equipment and intangible assets	11	3,442	7,795
Net decrease/(increase) in investment properties	12	41	(150)
Net decrease in advances for investments included in other assets	13	37	10
Net cash used in investing activities		**(316,268)**	**(669,430)**
FINANCING ACTIVITIES			
Net increase in amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	14	57,729	51,130
Financial liabilities designated as fair value through profit or loss	17	12,177	–
Cash received from issuance of securities	16	8,537	36,225
Cash used for redemption of issued securities	16	(22,144)	(80,914)
Increase/(decrease) in subordinated bonds and loans	20	1,620	(1,704)
Payments to ICES holders	22	(1,256)	(1,519)
Increase in Treasury shares	23	(14,238)	(13,510)
Decrease in Treasury shares	23	15,383	9,377
Dividend paid	22	(61,319)	(53,191)
Net cash used in financing activities		**(3,511)**	**(54,106)**
Net decrease in cash and cash equivalents		**(44,496)**	**(532,412)**
Cash and cash equivalents at the beginning of the period		**347,854**	**880,266**
Cash and cash equivalents at the end of the period		**303,358**	**347,854**

The accompanying notes to separate financial statements on pages 198 to 280 form an integral part of these separate financial statements.

NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS

1.1 General information

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

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

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

Responsible person for the control and management of accounting services: Zoltán Tuboly (Budapest), Managing Director of Accounting and Financial Department, Registration Number: 177289, IFRS qualified chartered accountant.

Due to Hungarian legislation audit services are statutory for OTP Bank. Disclosure information about the auditor:

Deloitte Auditing and Consulting Ltd. (000083), 84/C Dózsa György Street 84/C, H-1068 Budapest. Registered under 01-09-071057 by Budapest-Capital Regional Court, as registry court. Statutory registered auditor: Attila dr. Hruby, registration number: 007118.

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

All other fees charged by the Auditor for non-audit services during the financial year are disclosed in the consolidated financial statements of the Bank.

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

These Separate Financial Statements were approved by the Board of Directors and authorised for issue on 8 March 2019.

The structure of the Share capital by shareholders:

	2018	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 consist of 280,000,010 pieces of ordinary shares with the nominal value of HUF 100 each, representing the same rights of the shareholders.

The Bank provides a full range of commercial banking services through a nationwide network of 374 branches in Hungary.

Number of the employees of the Bank:

	2018	2017
Number of employees	8,721	8,374
Average number of employees	8,787	7,940

1.2 Basis of accounting

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

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

The presentation and functional currency of the Bank is the Hungarian Forint ("HUF").

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

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).

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

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

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

- **IFRS 16 "Leases"** – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 9 "Financial Instruments"** – Prepayment Features with Negative Compensation – adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

The Bank has elected not to adopt these new standards and amendments to existing standards in advance of their effective dates. The Bank anticipates that the adoption of these standards and amendments to existing standards will have no material impact on the financial statements of the Bank in the period of initial application.

Implementation of IFRS 16

The published standard, IFRS 16 Leases, which is not in force as at 31 December 2018 and was not applied earlier by the Group.

IFRS 16 will be effective for annual periods beginning on or after 1 January 2019 and has been adopted by the European Union. It supersedes the current standard IAS 17 Leases, interpretation IFRIC 4 Determining whether an Arrangement contains a Lease, SIC–15 Operating Leases – Incentives and SIC–27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The purpose of the new standard is to ease the comparability of the financial statements, presenting both financial and operating leases in the statement of financial position of the lessee, and providing corresponding information to the users of the financial statements about the risks associated with the agreements.

The new standard discontinues the differentiation between operating and finance leases in the lessee's books, and requires to recognise a right-of-use asset and lease liability regarding all of the lessee's lease agreements.

Pursuant to IFRS 16, an agreement is a lease or contains a lease if it transfers the rights to control the use of an identified asset for a given period in exchange for compensation.

The essential element differentiating the definition of a lease from IAS 17 and from IFRS 16 is the requirement to have control over the used, specific asset, indicated directly or indirectly in the agreement.

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

In the cash-flow statement cash-flows from the principal of the lease liability are classified as cash-flows from financing activities, while lease payments for short-term leases, lease payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability are classified as cash-flows from operating activities.

The interest payments regarding the lease liability are classified according to the IAS 7 standard.

The lessee applies IAS 36 Impairment of Assets standard to determine whether the right-of-use asset is impaired, and to recognise impairment, if it is necessary.

For the lessors the recognition and measurement requirements of IFRS 16 are similar, as they were stated in IAS 17.

The leases shall be classified as finance and operating leases according to IFRS 16 as well.

Compared to IAS 17, IFRS 16 requires the lessors to disclose more information about than earlier, however the main characteristics of the accounting treatment are unchanged.

Transition to application of IFRS 16

The Bank will use the modified retrospective approach.

Applying the modified retrospective approach requires the lessee to present the cumulative impact of IFRS 16 as an adjustment to equity at the start of the current accounting period in which it is first applied, so that comparative figures will not be restated.

The Bank applies the following practical expedients available:

- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Adjust the right-of-use asset at the date of initial application by the amount of any provision for onerous leases in the statement of financial position.
- Apply a simplified method for contracts mature within 12 months for the date of initial application.
- Exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- Use hindsight such as in determining the lease term if the contract contains options to extend or terminate the lease.

Impact of IFRS 16 on the financial statements (IFRS 16 Project)

At the moment of preparation of these financial statements the Bank had completed most of the work related to implementation of the new standard IFRS 16. The project to implement IFRS 16, which was commenced in the fourth quarter of 2017, was performed in three stages:

Stage I – Analysis of contracts, data collection

During the analysis of all executed agreements the classification was made, whether it is a purchase of services, or a lease. The analysis covered all the relevant agreements – so the Bank has not applied the so called "grand-fathering exemption" according to IFRS 16.C3 – despite their current classification and the assessment resulted in no different identification of the leases. Furthermore to calculate the value of the right-of-use assets and lease liabilities the collection of all the relevant information was performed.

The Bank will present as of 1 January 2019 the following types of right-of-use assets in the statement of financial position:

- Real estate
- Company car

The average life of the lease (useful life of the presented right-of-use assets):

- Real estate: 5,11 years
- Company car: 6,45 years

Stage II – Evaluation of contracts, Calculations

In accordance with the application of IFRS 16 an analysis was prepared, which included:

- The effect on the statement of financial position at the date of initial application (1 January 2019)
- The effect of lease agreements recognized and measured in accordance with IFRS 16 on the statement of financial position and on the statement of profit and loss (including the future effects)

Applying a leasing calculation tool, the value of the right-of-use assets, lease liabilities and deferred tax were determined.

Stage III – Implementation of IFRS 16 based on the developed concept, Developing accounting policy and disclosures

Description of adjustments

a) Recognition of lease liabilities

Following the adoption of IFRS 16, the Bank will recognise lease liabilities related to leases which were previously classified as "operating leases" in accordance with IAS 17 Leases. These liabilities will be measured at the present value of lease payments receivable as at the date of commencement of the application of IFRS 16. Lease payments shall be discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate. Interest rate applied by the Bank: weighted average lessee's incremental borrowing rate: ~1,62%

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

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

- payment of contractual penalties for terminating the lease, if the lease period reflects that the lessee used the option of terminating the lease.

The Bank makes use of expedients with respect to short-term leases (less than 12 months) as well as in the case of leases in respect of which the underlying asset has a low value (less than HUF 1.4 million) and for which agreements it will not recognise financial liabilities nor any respective right-of-use assets. These types of lease payments will be recognised as costs using the straight-line method during the life of the lease.

b) Recognition of right-of-use assets

Right-of-use assets are initially measured at cost. The cost of a right-of-use asset comprises:

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

c) Application of estimates

The implementation of IFRS 16 requires the making of certain estimates and calculations which effect the measurement of financial lease liabilities and of right-of-use assets. These include among others:

- determining which agreements are subject to IFRS 16,
- determining the lease term of such agreements (including for agreements with unspecified lives or which may be prolonged),
- determining the interest rates to be applied for the purpose of discounting future cash-flows,
- determining depreciation rates.

Impact on the statement of financial position

The impact of implementing IFRS 16 on the recognition of additional financial liabilities and respective right-of-use assets was estimated on the basis of agreements in force at the Bank as at 31 December 2018.

The Bank presents the following right-of-use assets in the statement of financial position as at 1 January 2019:

Estimated financial impact (in HUF mn):

	1 January 2019
Right-of-use asset	16,295
Lease liability	16,150
Cumulative impact recognized as an adjustment to the equity at the date of initial application	–

The initial application would have also impact on the Separate Statement of Comprehensive Income and Separate Statement of Cash-Flows however the estimated effect is considered as immaterial.

Average weighted amount of the implicit interest rate/incremental borrowing rate applied as at 1 January 2019 to recognize the lease liabilities: ~1,61%.

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

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

- **IFRS 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 3 "Business Combinations"** – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period).
- **Amendments to IFRS 10 "Consolidated Financial Statements"** and **IAS 28 "Investments in Associates and Joint Ventures"** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IAS 1 "Presentation of Financial Statements"** and **IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** – Definition of Material (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IAS 19 "Employee Benefits"** – Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015–2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).

The Bank anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the financial statements of the Bank in the period of initial application. Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated. According to the Bank estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to **IAS 39: "Financial Instruments: Recognition and Measurement"** would not significantly impact the financial statements, if applied as at the balance sheet date.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of presentation

These separate financial statements have been prepared under the historical cost convention with the exception of certain financial instruments, which are recorded at fair value. Revenues and expenses are recorded in the period in which they are earned or incurred. The presentation of separate financial statements in conformity with IFRS requires the Management of the Bank to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Future changes in economic conditions, business strategies, regulatory requirements, accounting rules and other factors could result in a change in estimates that could have a material impact on future separate financial statements.

2.2 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into HUF that is the presentation currency, at exchange rates quoted by the National Bank of Hungary ("NBH") as at the date of the separate financial statements. Income and expenses arising in foreign currencies are converted at the rate of exchange on the transaction date. Resulting foreign exchange gains or losses are recorded to the separate statement of profit or loss.

2.3 Consolidated financial statements

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

2.4 Investments in subsidiaries, associated companies and other investments

Investments in subsidiaries comprise those investments where OTP Bank, through direct and indirect ownership interest, controls the investee. Control is achieved when the Bank has power over the investee, is exposed or has rights, to variable returns from its involvement with the investee and has the ability to use its power to affect its returns.
Investments in subsidiaries are recorded at the cost of acquisition, less impairment for permanent diminution in value, when appropriate. After initial measurement investments in subsidiaries are measured at cost, in the case of foreign currency denominated investments for the measurement the Bank uses the exchange rate at the date of transaction.
Associated companies where the Bank has the ability to exercise significant influence are accounted for using the equity method.
Impairment is determined based on the future economic benefits of the subsidiary and macroeconomic factors.
OTP Bank calculates the fair value based on discounted cash-flow model. The 3 year period explicit cash-flow model serves as a basis for the impairment test by which the Bank defines the impairment need on investment in subsidiaries based on the strategic factors and financial data of its cash-generating units.

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

2.5 Securities at amortised cost

The Bank measures at amortised cost those securities, which are held for cash collecting purposes, and contractual terms of these securities give rise to cash-flows that are solely payment of principal and interest on the principal amount outstanding. The annual amortisation of any discount or premium on the acquisition of a security at amortised cost is aggregated with other investment income receivables over the term of the investment so that the revenue recognized in each period represents a constant yield on the investment. Securities at amortised cost are accounted for on a trade date basis.
Such securities comprise mainly securities issued by the Hungarian Government, mortgage bonds and Hungarian Government discounted Treasury Bills.

2. Financial assets at fair value through profit or loss

2.6.1 Securities held for trading

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

2.6.2 Derivative financial instruments

In the normal course of business, the Bank is a party to contracts for derivative financial instruments, which represent a low initial investment compared to the notional value of the contract and their value depends on value of underlying asset and are settled in the future. The derivative financial instruments used include interest rate forward or swap agreements and currency forward or swap agreements and options. These financial instruments are used by the Bank both for trading purposes and to hedge interest rate risk and currency exposures associated with its transactions in the financial markets.
Derivative financial instruments are accounted for on a trade date basis and are initially measured at fair value and at subsequent reporting dates also at fair value. Fair values are obtained from quoted market prices, discounted cash-flow models and option pricing models as appropriate. OTP Bank adopts multi curve valuation approach for calculating the net present value of future cash-flows – based on different curves used for determining forward rates and used for discounting purposes.
It shows the best estimation of such derivative deals that are collateralised as OTP Bank has almost its entire open derivative transactions collateralised. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in profit or loss and are included in the separate statement of profit or loss for the period. Each derivative deal is determined as asset when fair value is positive and as liability when fair value is negative.
Certain derivative transactions, while providing effective economic hedges under risk manage-

[1] First In First Out

ment positions of the Bank, do not qualify for hedge accounting under the specific rules of IFRS 9 and are therefore treated as derivatives held for trading with fair value gains and losses charged directly to the separate statement of profit or loss.

Foreign currency contracts

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

Foreign exchange swaps and interest rate swaps

The Bank enters into foreign-exchange swap and interest rate swap (IRS) transactions.
The swap transaction is a complex agreement concerning the swap of certain financial instruments, which usually consists of a spot and one or more forward contracts.
Interest rate swaps obligate two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount (the base of the interest calculation).
Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps.
Such notional principal amounts are often used to express the volume of these transactions but are not actually exchanged between the counterparties. The Bank's interest rate swap contracts can be hedging or held for trading contracts.

Cross-currency interest rate swaps

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

Equity and commodity swaps

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

Forward rate agreements (FRA)

A forward rate agreement is an agreement to settle amounts at a specified future date based on the difference between an interest rate index and an agreed upon fixed rate. Market risk arises from changes in the market value of contractual positions caused by movements in interest rates.
The Bank limits its exposure to market risk by entering into generally matching or offsetting positions and by establishing and monitoring limits on unmatched positions. Credit risk is managed through approval procedures that establish specific limits for individual counterparties. The Bank's forward rate agreements were transacted for management of interest rate exposures.

Foreign exchange options

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

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

Changes in the fair value of derivatives that are designated and qualify as hedging instruments fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the separate statement of profit or loss along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. Changes in the fair value of the hedging instrument in fair value hedges is charged directly to the separate statement of profit or loss. The conditions of hedge accounting applied by the Bank are the following: formally designated as hedging relationship, 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 hedging instrument in cash-flow hedges and that prove to be highly effective in relation to hedged risk are recognized as reserve in other comprehensive income. Amounts deferred in equity are transferred to the separate statement of profit or loss and classified as revenue or expense in the periods during which the hedged assets and liabilities effect the separate statement of recognized and comprehensive income for the period. The ineffective element of the hedge is charged directly to the separate statement of profit or loss.
The Bank terminates the hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting or the Bank revokes the designation.

2.8 Offsetting

Financial assets and liabilities may be offset and the net amount is reported in the statement of financial position when the Bank has a legally enforceable right to set off the recognised amounts and the transactions are intended to be reported in the statement of financial position on a net basis. The Bank does not offset any financial assets and financial liabilities.

2.9 Embedded derivatives

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

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

If a hybrid contract contains a host that is a financial asset the general accounting rules for classification, recognition and measurement of financial assets are applicable for the whole contract.

2.10 Securities at fair value through other comprehensive income ("FVOCI securities")

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

Investments in securities are accounted for on a trade date basis and are initially measured at fair value. Securities at fair value through other comprehensive income are measured at subsequent reporting dates at fair value. Unrealised gains and losses on FVOCI financial instruments are recognized in other comprehensive income, except for interest and foreign exchange gains/losses on monetary items, unless such FVOCI security is part of an effective hedge. Such gains and losses will be reported when realised in profit or loss for the applicable period. The Bank applies FIFO inventory valuation method for FVOCI securities.
The Bank has elected to present in the Statement of Other Comprehensive Income changes of fair value of those equity instruments which are neither held for trading nor recognised under IFRS 3.
The loss allowance is calculated based on discounted cash-flow methodology for debt instruments and calculated based on fair value on equity instruments, using the expected future cash-flow and original effective interest rate if there is objective evidence of impairment based on significant or prolonged decrease on fair value.
FVOCI securities are remeasured at fair value based on quoted prices or values derived from cash-flow models. In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of the future cash-flows and the fair value of any unquoted equity instruments are calculated using the EPS ratio.
In some cases the Bank made an irrevocable election at initial recognition for certain equity instruments to present subsequent changes in fair value of these securities in other comprehensive income instead of in profit or loss.

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

The Bank measures at amortised cost those Loans and placements with other banks, which are held to collect contractual cash-flows, and contractual terms of these assets give rise on specified dates to cash-flows that are solely payments of principal and interest on the principal amount outstanding. The Bank recognises as loans measured at fair value through profit or loss those financial assets, which are held for trading and do not give rise contractual cash-flows that are solely payments of principal and interest on the principal amount outstanding.
Loans and placements with other banks are accounted at amortised cost, stated at the principal amounts outstanding including accrued interest, net of allowance for loan or placement losses, respectively. Transaction fees and charges should adjust the carrying amount at initial recognition and be included in effective interest calculation. Loans and placements with other banks are derecognised when the contractual rights to the cash-flows expire or they are transferred. When a financial asset is derecognised the difference of the carrying amount and the consideration received is recognised in the profit or loss. When the contractual cash-flows of a financial asset are modified and the modification does not result in the derecognition of the financial asset the Bank recalculate the gross carrying amount of the financial asset by discounting the expected future cash-flows with the original effective interest rate of the asset. The difference between the carrying amount and the present value of the expected cash-flows is recognised as a modification gain or loss in the profit or loss. Interest and amortised cost are accounted using effective interest rate method. When a borrower is unable to meet payments as they fall due or, in the opinion of the Management, there is an indication that a borrower may be unable to meet payments as they fall due, all unpaid penalty interest becomes impaired.
Initially financial assets shall be recognized at fair value which is usually equal to transaction value of loans and receivables. Initial fair value of loans and receivables lent at interest below market conditions is lower than their transaction price. As a consequence the Bank is deferring the difference between the fair value at initial recognition and the transaction price relating to loans and receivables because input data for measuring the fair values is not available on observable markets.
The amount of loss allowance is the difference between the gross carrying amount and the

recoverable amount, being the present value of the expected cash-flows, including amounts recoverable from guarantees and collaterals, discounted at the original effective interest rate. Allowance for losses on loans and placements with other banks represent management assessment for potential losses in relation to these activities.

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

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

The allowances for loan and placement losses are determined to cover losses that have been specifically identified. Collective impairment losses of portfolios of loans, for which no objective evidence of loss allowance has been identified on an individual basis, are determined to reduce the carrying amount of the portfolios of financial assets with similar credit risk characteristics to their estimated recoverable amounts at the balance sheet date. The expected cash-flows for portfolios of similar assets are estimated based on historical loss experience. Historical loss experience is the basis for calculating the expected loss, which is adjusted by the loss confirmation period, which represents the average time lag between occurrence of a loss event and confirmation of the loss. This concept enables recognition of those losses that have occurred in the portfolio at the balance sheet date.

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

If a financial asset, which previously classified in the first stage, classified subsequently in the second or third stage than loss allowance is adjusted to lifetime expected credit loss.

If a financial asset, which previously classified in the second or third stages, classified subsequently in the first stage than loss allowance is adjusted to level of 12 month expected credit.

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

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

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

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

2.12 Sale and repurchase agreements, security lending

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

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

2.13 Property, equipment and intangible assets

Property, equipment and intangible assets are stated at cost, less accumulated depreciation and amortization and impairment, if any.

The depreciable amount (book value less residual value) of the non-current assets must be allocated over their useful lives. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets based on the following annual percentages:

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

Depreciation and amortization on properties, equipment and intangible assets starts on the day when such assets are placed into service.

At each balance sheet date, the Bank reviews the carrying value of its tangible and intangible assets to determine if there is any indication that those assets have suffered an impairment loss.

If such indication exists, the recoverable amount of the asset is estimated to determine the extent (if any) of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where the carrying value of property, equipment, other tangible fixed assets and intangible assets is greater than the estimated recoverable amount, it is impaired immediately to the estimated recoverable amount.

2.14 Investment properties

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

2.15 Financial liabilities

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

2.16 Leases

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised at their fair value and depreciated over the useful lives of assets. The capital element of each future lease obligation is recorded as a liability, while the interest elements are charged to the separate statement of Profit or loss over the period of the leases to produce a constant rate of charge on the balance of capital payments outstanding. Payments made under operating leases are charged to the separate statement of profit or loss on a straight-line basis over the life of the lease terms. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

2.17 Treasury shares

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

2.18 Interest income and interest expense

Interest income and expenses are recognised in profit or loss in the period to which they relate, using the effective interest rate method. Interest from loans and deposits are accrued on a daily basis. Interest income and expenses include relevant transaction costs and the amortisation of any discount or premium between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.
The time-proportional interest income of derivative financial instruments calculated not using the effective interest method and the positive fair value adjustment of interest rate swaps are also included in interest income. The Bank recognizes interest income when it considers that the interest associated with the transaction will flow to the Bank and the amount of the revenue can be reasonably measured. All interest income and expense arising from loans, placements with other banks, FVOCI securities, securities at amortised cost and amounts due to banks, deposits from customers, liabilities from issued securities, subordinated bond and loans are presented under these lines of financial statement.

2.19 Fees and Commissions

Fees and commissions are recognised using effective interest method referring to provisions of IFRS 9, when they relate and have to be included in the amortised cost model. Certain fees and commissions that are not involved in the amortised cost model are recognised in the separate statement of recognised income on an accrual basis based on IFRS 15. See further details in Note 25.

2.20 Dividend income

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

2.21 Income tax

The annual taxation charge is based on the tax payable under Hungarian fiscal law, adjusted for deferred taxation. Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences between the tax bases of assets and liabilities and their carrying value for financial reporting purposes, measured at the tax rates that are expected to apply when the asset is realised or the liability is settled. Deferred tax assets are recognized by the Bank for the amounts of income tax that are recoverable in future periods in respect of deductible temporary differences as well as the carryforward of unused tax losses and the carryforward of unused tax credits.

2.22 Off-balance sheet commitments and contingent liabilities

In the ordinary course of its business, the Bank has entered into off-balance sheet commitments such as guarantees, commitments to extend credit, letters of credit and transactions with financial instruments.
The provision on off-balance sheet commitments and contingent liabilities is maintained at a level adequate to absorb probable future losses. Management determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.
The Bank recognizes a provision when it has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the obligation.

2.23 Share-based payment and employee benefit

The Bank has applied the requirements of IFRS 2 Share-based Payment.
The Bank issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the year, based on the Bank's estimate of shares that will eventually vest. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on Management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. The Bank has

IAS 39	IFRS 9
Placements with other banks	**Placements with other banks**
Loans measured at amortised cost	Loans measured at amortised cost
	Loans mandatorily measured at fair value
Loans total	**Loans total**
Held for trading securities	Held for trading securities
Available for sale securities	Securities mandatorily measured at fair value through profit or loss
	Securities at fair value through other comprehensive income
Held to maturity securities	Securities at amortised cost
Securities total	**Securities total**
Amounts due to banks	Amounts due to banks
	Financial liabilities designated as fair value through profit or loss
Total	**Total**
Provision for loan commitments and financial guarantees	Provision for loan commitments and financial guarantees

applied the requirement of IAS 19 Employee Benefits. IAS 19 requires to recognise employee benefits to be paid as a liability and as an expense in financial statements.

2.24 Separate statement of cash-flows

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

2.25 Segment reporting

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

At separate level, the Management does not separate and makes decisions based on different segments; the segments are identified by the Bank only at consolidated level in line with IFRS 8 paragraph 4. At Group level the segments identified by the Bank are the business and geographical segments.
The Group's operating segments under IFRS 8 are therefore as follows: OTP Core Hungary, Russia, Ukraine, Bulgaria, Romania, Serbia, Croatia, Slovakia, Montenegro, Leasing subsidiaries, Asset Management subsidiaries, other subsidiaries, Corporate Centre.

2.26 Comparative figures

These separate financial statements are prepared in accordance with the same accounting policies in all respects as the authorised Separate Financial Statements prepared in accordance with IFRS as adopted by the EU for the year ended 31 December 2017, which were approved on 13 March 2018, excluding initial application of IFRS 9 and IFRS 15 standard.

IFRS 9

The Management has decided to present comparative figures in accordance with IAS 39 standard. The Bank applied the retrospective method.

Opening balance according to IAS 39 as at 1 January 2018	Reclassification	Remeasurement due to reclassification	Remeasurement due to impairment				Opening balance according to IFRS 9 as at 1 January 2018
			Stage 1	Stage 2	Stage 3	POCI	
978,098	**–**	**–**	**(1,257)**	**–**	**–**	**–**	**976,841**
2,145,046	(19,650)	–	(1,350)	(1,902)	(5,679)	2,021	2,118,486
–	19,650	1,408	–	–	–	–	21,058
2,145,046	**–**	**1,408**	**(1,350)**	**(1,902)**	**(5,679)**	**2,021**	**2,139,544**
206,715	–	–	–	–	–	–	206,715
–	20,005	–	–	–	–	–	20,005
1,735,902	(20,005)	–	(2,380)	–	–	–	1,713,517
1,043,779	–	–	(1,477)	–	–	–	1,042,302
2,986,396	**–**	**–**	**(3,857)**	**–**	**–**	**–**	**2,982,539**
694,533	(20,011)	–	–	–	–	–	674,522
–	20,011	1,465	–	–	–	–	21,476
5,415,007	**–**	**(57)**	**(6,464)**	**(1,902)**	**(5,679)**	**2,021**	**5,402,926**
10,007	–	–	(3,911)	(240)	120	–	5,976

IFRS 15

Initial application of IFRS 15 has no significant effect on the Bank's financial statements.

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

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

3.1 Loss allowance on financial instruments

The Bank regularly assesses its financial instruments for impairment. Management determines the adequacy of the allowances based upon reviews of individual loans and placements, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors. The use of a new, three stage model was implemented for IFRS 9 purposes. The new impairment methodology is used to classify financial instruments in order to determine whether credit risk has significantly increased since initial recognition and able to identify credit-impaired assets. For instruments with credit-impairment or significant increase of credit risk lifetime expected losses will be recognized. (For details see note 28.1.1)

3.2 Valuation of instruments without direct quotations

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

3.3 Provisions

Provision is recognized and measured for commitments to extend credit and for warranties arising from banking activities based on IFRS 9 Financial Instruments. Provision for these instruments is recognised based on the credit conversion factor, which shows the proportion of the undrawn facility that will be probably funded.
Other provision is recognized and measured based on IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Bank is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Bank assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for. (See Note 19)

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

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

3.4 Business models

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

Business model whose objective is to hold financial assets in order to collect contractual cash-flows. Within this business model the Bank manages mainly loans and advances and long-term securities and other financial assets.

Business model whose objective is achieved by both collecting contractual cash-flows and selling financial assets. Within this business model the Bank only manages securities.

Business model whose objective is to achieve gains in a short-term period. Within this business model the Bank manages securities and derivative financial instrument.

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

	2018	2017
Cash on hand:		
In HUF	166,419	93,496
In foreign currency	11,517	9,610
	177,936	**103,106**
Amounts due from banks and balances with National Bank of Hungary:		
Within one year:		
In HUF	58,152	204,522
In foreign currency	124,725	91,346
	182,877	**295,868**
Accrued interest	42	150
Subtotal	**360,855**	**399,124**
Average amount of compulsory reserve	57,497	51,270
Total	**303,358**	**347,854**
Rate of the compulsory reserve	1%	1%

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

a) deposits and loans,

b) debt instruments,

c) repo transactions.

The amount of the compulsory reserve is the multiplication of the daily average of the liabilities considered in the compulsory reserve calculation and compulsory reserve rate, which are determined by the NBH in a specific decree. The Bank is required to complete compulsory reserve requirements in average in the second month after the reserve calculation period, requirements shall be completed once a month on the last calendar day. The Bank complies with the compulsory reserve requirements by the deposit of the adequate amount of cash as the calculated compulsory reserve on the bank account at NBH in monthly average.

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

	2018	2017
Within one year:		
In HUF	549,206	662,357
In foreign currency	212,527	108,875
	761,733	**771,232**
Over one year:		
In HUF	283,467	196,079
In foreign currency	28,500	9,304
	311,967	**205,383**
Total placements	**1,073,700**	**976,615**
Accrued interest	3,187	1,483
Loss allowance	(2,047)	–
Total	**1,074,840**	**978,098**

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

	2018	2017
Balance as at 1 January	**–**	**32**
Effect of transition to application of IFRS 9	1,257	–
Reclassification	(105)	–
Loss allowance	2,760	(32)
Release of loss allowance	(1,865)	–
Closing balance	**2,047**	**–**

Interest conditions of placements with other banks:

	2018	2017
Placements with other banks in HUF	0%–3.84%	(0.5%)–3.84%
Placements with other banks in foreign currency	(0.8%)–3.7%	(0.73%)–1.75%
Average interest of placements with other banks	0.52%	0.74%

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

	2018	2017
Securities held for trading:		
Government bonds	10,538	64,570
Other non-interest-bearing securities	7,169	9,187
Hungarian government discounted Treasury Bills	1,059	1,169
Mortgage bonds	972	–
Corporate shares and investments	371	319
Hungarian government interest bearing Treasury Bills	–	93,806
Other bonds	2,093	34,583
Subtotal	**22,202**	**203,634**
Accrued interest	120	3,081
Total	**22,322**	**206,715**
Securities mandatorily measured at fair value through profit or loss:		
Shares in investment funds	15,880	–
Bonds	4,753	–
	20,633	–
Accrued interest	25	–
Subtotal	**20,658**	**–**
Held for trading derivative financial instruments:		
Interest rate swaps	46,357	34,911
Foreign currency swaps	33,816	24,436
CCIRS and mark-to-market CCIRS* swaps	17,078	21,314
Other derivatives**	14,811	16,551
Subtotal	**112,062**	**97,212**
Total	**155,042**	**303,927**

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

	2018	2017
Within one year:		
variable interest	1,969	2,943
fixed interest	5,195	116,480
	7,164	**119,423**
Over one year:		
variable interest	2,198	14,214
fixed interest	5,301	60,490
	7,499	**74,704**
Non-interest-bearing securities	7,539	9,507
Total	**22,202**	**203,634**
Securities held for trading denominated in HUF	71.20%	81.86%
Securities held for trading denominated in foreign currency	28.80%	18.14%
Securities held for trading total	**100,00%**	**100.00%**
Government bonds denominated in HUF	61.99%	96.69%
Government bonds denominated in foreign currency	38.01%	3.31%
Government securities total	**100,00%**	**100.00%**
Interest rates on securities held for trading	0.01%–6.5%	0.01%–9.25%
Average interest on securities held for trading	3.98%	2.32%

* CCIRS: Cross Currency Interest Rate Swap.
** Incl.: FX, equity, commodity and index futures; FX forward; commodity and equity swap; FRA; FX option.

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

	2018	2017*
Government bonds	869,811	1,190,235
Mortgage bonds	224,965	149,987
Interest bearing treasury bills	234,399	142,988
Other securities	105,716	234,150
listed securities	34,725	116,541
in HUF	–	78,762
in foreign currency	34,725	37,779
non-listed securities	51,617	117,609
in HUF	22,886	48,410
in foreign currency	28,731	69,199
Subtotal	**1,415,517**	**1,717,360**
Non-trading equity instruments designated to measure at fair value through other comprehensive income		
non-listed securities	19,374	–
in HUF	566	–
in foreign currency	18,808	–
Subtotal	**19,374**	**–**
Accrued interest	17,014	18,628
Loss allowance	–	(86)
FVOCI Securities/Available for sale securities total	**1,451,905**	**1,735,902**
FVOCI securities/Available for sale securities denominated in HUF	81%	82%
FVOCI securities/Available for sale securities denominated in foreign currency	19%	18%
FVOCI securities/Available for sale securities total	**100%**	**100%**
Interest rates on FVOCI securities/Available for sale securities denominated in HUF	0.5%–11%	0.63%–11%
Interest rates on FVOCI securities/Available for sale securities denominated in foreign currency	(0.14%)–7.25%	(0.15%)–7.25%
Average interest on FVOCI securities/Available for sale securities	2.26%	1.92%

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

	2018	2017
Balance as at 1 January	**86**	**–**
Effect of transition to application of IFRS 9	(86)	–
Reclassification	–	96
Release of loss allowance for the period	–	(10)
Closing balance	**–**	**86**

Interest conditions and the remaining maturities of FVOCI securities/Available for sale securities can be analysed as follows:

	2018	2017
Within one year:		
variable interest	15,155	32,794
fixed interest	449,248	481,944
	464,403	**514,738**
Over one year:		
variable interest	143,458	86,473
fixed interest	807,656	1,084,450
	951,114	**1,170,923**
Non-interest-bearing securities	19,374	31,699
Total	**1,434,891**	**1,717,360**

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

* Comparative figures in the prior separate financial statements were presented as available-for-sale securities. For details see Note 2.26.

	2018	2017
Net gain reclassified from equity to statement of profit or loss	(12,833)	(7,117)
Fair value of the hedged securities:		
Government bonds	1,340,197	985,402
Other bonds	185,576	34,059
Total	**1,525,773**	**1,019,461**

During 2018 the Bank didn't sell any of equity instruments designated to measure at fair value through other comprehensive income.

NOTE 8: LOANS (in HUF mn)

Loans measured at fair value through profit or loss:

	2018	2017
Gross loans	34,373	–
Fair value adjustment	(1,770)	–
Total	**32,603**	**–**
Accrued interest	142	–
Loans measured at fair value through profit or loss total	**32,745**	**–**

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

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

	2018	2017
Short-term loans and promissory notes (within one year)	1,317,656	1,081,438
Long-term loans and promissory notes (over one year)	1,330,274	1,127,978
Loans gross total	**2,647,930**	**2,209,416**
Accrued interest	4,441	5,138
Loss allowance	(66,253)	(69,508)
Loans measured at amortised cost, net of allowance for loan losses total	**2,586,118**	**2,145,046**
Loans total	**2,618,863**	**2,145,046**

An analysis of the loan portfolio by currency:

	2018	2017
In HUF	57%	58%
In foreign currency	43%	42%
Total	**100%**	**100%**

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

	2018	2017
Loans denominated in HUF	1.19%–10.08%	–
Average interest on loans denominated in HUF	2.08%	–

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

	2018	2017
Loans denominated in HUF, with a maturity within one year	(0.2%)–37.5%	0%–37.45%
Loans denominated in HUF, with a maturity over one year	0.01%–37.5%	0%–37.5%
Loans denominated in foreign currency	(0.50%)–15.1%	(0.67%)–22.2%
Average interest on loans denominated in HUF	6.70%	7.46%
Average interest on loans denominated in foreign currency	2.07%	2.31%

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

	2018		2017	
Retail loans	**547,277**	**20%**	**512,529**	**23%**
Retail consumer loans	397,911	15%	334,301	15%
Retail mortgage backed loans*	149,366	5%	178,228	8%
Corporate loans	**2,100,653**	**79%**	**1,696,887**	**77%**
Loans to corporates	2,003,392	75%	1,651,908	75%
Municipality loans	97,261	4%	44,979	2%
Loans at amortised cost total	**2,647,930**	**99%**	**2,209,416**	**100%**
Loans at fair value total	**32,603**	**1%**	**–**	**–**
Gross loans total	**2,680,533**	**100%**	**2,209,416**	**100%**

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

	2018	2017
Balance as at 1 January	**69,508**	**91,335**
Change as a result of applying IFRS 9	8,931	–
Reclassification	26	(1,397)
Loss allowance	102,203	79,422
Release of loss allowance	(104,855)	(85,280)
Portional write-off	(3,444)	(3,372)
Partial write-off	(6,116)	(11,200)
Closing balance	**66,253**	**69,508**

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

	2018	2017
Loss allowance/(Release of loss allowance) on placements with other banks	895	(32)
Loss allowance on loans at amortised cost	6.927	7,807
Total	**7.822**	**7,775**

The Bank sells non-performing loans without recourse at estimated fair value to a wholly owned subsidiary, OTP Factoring Ltd. (see Note 32).

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

	2018	2017
Investments in subsidiaries		
Controlling interest	1,712,635	1,502,999
Other investments	1,013	3,261
Subtotal	**1,713,648**	**1,506,260**
Loss allowance	(536,075)	(538,846)
Total	**1,177,573**	**967,414**

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

* Incl. housing loans

Significant subsidiaries

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

	2018		2017	
	% Held (direct/indirect)	Gross book value	% Held (direct/indirect)	Gross book value
OTP Bank JSC (Ukraine)	100%	311,390	100%	311,390
OTP banka Hrvatska d.d. (Croatia)	100%	205,349	100%	205,349
OTP Mortgage Bank Ltd.	100%	144,294	100%	144,294
OTP banka Srbija a.d. (Serbia)	100%	131,164	99%	130,403
OTP Bank Romania S.A. (Romania)	100%	111,544	100%	102,514
DSK Bank EAD (Bulgaria)	100%	280,692	100%	86,832
JSC "OTP Bank" (Russia)	97.90%	74,332	98%	74,330
OTP Factoring Ukraine LLC (Ukraine)	100%	70,589	100%	70,589
Crnogorska komercijalna banka a.d. (Montenegro)	100%	58,484	100%	58,484
LLC Alliance Reserve (Russia)	100%	50,075	100%	50,074
OTP Holding Malta Ltd. (Malta)	100%	32,359	100%	32,359
Balansz Real Estate Institute Fund	100%	29,151	100%	29,151
Bank Center No. 1. Ltd.	100%	26,063	100%	26,063
OTP Factoring Ltd.	100%	25,411	100%	25,411
OTP Banka Slovensko a.s. (Slovakia)	99.38%	29,134	99%	24,280
Air-Invest Ltd.	100%	21,748	100%	21,748
Merkantil Bank Ltd.	100%	23,663	100%	21,415
Inga Kettő Ltd.	100%	17,892	100%	17,892
OTP Life Annuity Ltd.	100%	15,300	100%	15,300
OTP Real Estate Ltd.	100%	10,023	100%	10,023
Monicomp Ltd.	100%	9,234	100%	9,234
OTP Real Estate Leasing Ltd.	100%	–	100%	7,206
Other		34,744		28,658
Total		**1,712,635**		**1,502,999**

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

	2018	2017
Balance as at 1 January	**538,846**	**639,917**
Reclassification	–	(35,871)
Provision for the period	39,430	44,770
Release of provision	(34,994)	–
Use of provision	(7,207)	(109,970)
Closing balance	**536,075**	**538,846**

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

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

An analysis of the loss allowance by significant subsidiaries is as follows:

	2018	2017
OTP Bank JSC (Ukraine)	258,448	272,824
OTP Factoring Ukraine LLC (Ukraine)	69,451	70,451
OTP Mortgage Bank Ltd.	65,096	65,096
OTP banka Srbija a.d. (Serbia)	53,383	63,233
Crnogorska komercijalna banka a.d. (Montenegro)	23,324	23,324
OTP Bank Romania S.A. (Romania)	19,026	–
OTP Banka Slovensko a.s. (Slovakia)	12,649	–
Air-Invest Ltd.	10,491	10,491
OTP Life Annuity Ltd.	10,970	10,102
OTP Real Estate Leasing Ltd.	–	7,206
R.E. Four d.o.o. (Serbia)	3,763	3,763
Merkantil Bank Ltd.	–	2,585
OTP Real Estate Ltd.	3,456	2,200
OTP Buildings s.r.o (Romania)	3,327	–
Total	**533,384**	**531,275**

Dividend income from significant subsidiaries and shares held-for-trading and shares measured at fair value through other comprehensive income is as follows:

	2018	2017
DSK Bank EAD (Bulgaria)	42,037	44,825
OTP Mortgage Bank Ltd.	18,250	20,623
OTP Fund Management Ltd.	386	5,159
OTP Holding Ltd. (Cyprus)	–	4,509
OTP Building Society Ltd.	1,500	1,200
Other	1,025	3,057
Subtotal	**63,198**	**79,373**
Dividend from shares held-for-trading	5,125	3,141
Dividend from shares measured at fair value through other comprehensive income	158	124
Total	**68,481**	**82,638**

Significant associates and joint ventures

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

As at 31 December 2018:

	D-ÉG Thermoset Ltd.**	Szallas.hu Ltd.	Company for Cash Services LLC	Total
Assets	3,883	2,135	2,377	**8,395**
Liabilities	4,629	813	112	**5,554**
Shareholders' equity	(746)	1,322	2,265	**2,841**
Total income	**2,386**	**4,172**	**1,136**	**7,694**
% Held	**0.1%**	**30%**	**20%**	

As at 31 December 2017:

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

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

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

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

The registered capital of the Romanian subsidiary (OTP Bank Romania SA) of OTP Bank was increased to RON 1,509,252,960 from RON 1,254,252,720.

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

OTP Bank signed an acquisition agreement on purchasing 88.89% shareholding of Banka Societe Generale Albania SH. A. **("SGAL"),** the Albanian subsidiary of Société Générale Group. With a market share of nearly 6%, SGAL is the 5th largest bank on the Albanian banking market and as a universal bank it has been active in the retail and corporate segment as well.

DSK Bank EAD, the Bulgarian subsidiary of OTP Bank signed an acquisition agreement on purchasing 99.74% shareholding of Societe Generale Expressbank AD **("SGEB"),** the Bulgarian subsidiary of Société Générale Group, and other local subsidiaries held by SGEB. With a market share of approximately 6.4% 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.

The registered capital of the Bulgarian subsidiary of OTP Bank was increased to BGN 1,327,482,000 from BGN 153,984,000. The Bulgarian Court of Registration registered the capital increase at 27 December 2018.

Crnogorska komercijalna banka a.d., the Montenegrin subsidiary of OTP Bank signed an acquisition agreement on purchasing 90.56% shareholding of Societe Generale banka Montenegro a.d. **("SGM"),** the Montenegrin subsidiary of Societe Generale Group. With a market share of 11.5%, SGM is the 4th largest bank on the Montenegrin banking market and as a universal bank it has been active in the retail and corporate segment as well.

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

	2018	2017
Government bonds	1,408,031	1,021,441
Mortgage bonds	4,708	4,746
Subtotal	**1,412,739**	**1,026,187**
Accrued interest	20,718	17,592
Loss allowance	(1,668)	–
Total	**1,431,789**	**1,043,779**

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

	2018	2017
Within one year:		
fixed interest	115,872	59,004
	115,872	**59,004**
Over one year:		
fixed interest	1,296,867	967,183
	1,296,867	**967,183**
Total	**1,412,739**	**1,026,187**

The distribution of the securities at amortised cost by currency:

	2018	2017
Securities at amortised cost denominated in HUF	100%	100%
Securities at amortised cost total	**100%**	**100%**
Interest rates on securities at amortised cost	0.5%–9.48%	1.75%–9.48%
Average interest on securities at amortised cost denominated in HUF	3.44%	4.79%

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

	2018	2017
Balance as at 1 January	**–**	**–**
Change as a result of applying IFRS 9	1,477	–
Loss allowance	875	–
Release of loss allowance	(684)	–
Closing balance	**1,668**	**–**

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

As at 31 December 2018:

	Intangible assets	Property	Office equipment and vehicles	Construction in progress	Total
Cost					
Balance as at 1 January	**96,253**	**67,368**	**72,591**	**6,283**	**242,495**
Additions	19,209	3,513	13,387	17,626	53,735
Disposals	(190)	(3,956)	(5,017)	(16,899)	(26,062)
Balance as at 31 December	**115,272**	**66,925**	**80,961**	**7,010**	**270,168**
Depreciation and Amortization					
Balance as at 1 January	**63,376**	**20,634**	**60,322**	**–**	**144,332**
Charge for the year	12,138	1,895	7,199	–	21,232
Disposals	(125)	(672)	(4,924)	–	(5,721)
Balance as at 31 December	**75,389**	**21,857**	**62,597**	**–**	**159,843**
Net book value					
Balance as at 1 January	**32,877**	**46,734**	**12,269**	**6,283**	**98,163**
Balance as at 31 December	**39,883**	**45,068**	**18,364**	**7,010**	**110,325**

As at 31 December 2017:

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

The Bank has no intangible assets with indefinite useful life.

NOTE 12: INVESTMENT PROPERTIES (in HUF mn)

For the year ended 31 December 2018 and 2017:

	2018	2017
Cost		
Balance as at 1 January	2,961	2,811
Additions resulting from subsequent expenditure	3	150
Closing balance	2,964	2,961
Depreciation and Amortization		
Balance as at 1 January	587	544
Charge for the year	44	43
Closing balance	631	587
Net book value		
Balance as at 1 January	2,374	2,267
Closing balance	**2,333**	**2,374**

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

Incomes and expenses:

	2018	2017
Rental income	1	1
Depreciation	43	43

NOTE 13: OTHER ASSETS* (in HUF mn)

	2018	2017
Receivables from card operations	35,892	22,509
Prepayments and accrued income	23,610	24,172
Receivables from OTP Employee Stock Ownership Program (OTP ESOP)	18,535	6,087
Receivables from investment services	7,044	3,272
Receivables from OTP Mortgage Bank Ltd.	6,479	4,098
Trade receivables	5,232	9,863
Receivable related to Hungarian Government subsidies	4,287	4,267
Stock exchange deposit	3,058	1,443
Other advances	1,791	2,127
Receivables from supplementary payments	1,660	10,260
Other	9,034	9,413
Subtotal	**116,622**	**97,511**
Loss allowance on other assets**	(7,421)	(17,595)
Other assets total	**109,201**	**79,916**
Fair value of derivative financial instruments designated as hedge accounting	12,221	10,148
Deferred tax assets***	1,241	7,991
Other highlighted line items	**13,462**	**18,139**
Total	**122,663**	**98,055**

* Other assets – except income tax receivable and fair value of derivative financial instruments designated as fair value hedge – are expected to be recovered or settled no more than twelve months after the reporting period. Unrealised gains/losses on derivative financial instruments are recovering in accordance with their maturity.
** Provision for impairment on other assets mainly consists of provision for trade receivables and inventories.
*** See details in Note 27.

Positive fair value of derivative financial instruments designated as hedging instrument:

	2018	2017
Interest rate swaps designated as fair value hedge	4,467	6,639
CCIRS designated as fair value hedge	4,003	3,509
Interest rate swaps designated as cash-flow hedge	3,751	–
Total	**12,221**	**10,148**

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

	2018	2017
Balance as at 1 January	**17,595**	**5,804**
Effect of transition to application of IFRS 9	(175)	–
Reclassification	79	37,452
Charge for the period	4,418	6,573
Release of loss allowance	(14,496)	(32,234)
Closing balance	**7,421**	**17,595**

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

	2018	2017
Within one year:		
In HUF	167,339	282,757
In foreign currency	120,768	100,396
	288,107	**383,153**
Over one year:		
In HUF	348,885	126,367
In foreign currency	99,645	177,829
	448,530	**304,196**
Subtotal	**736,637**	**687,349**
Accrued interest	1,399	7,184
Total	**738,036**	**694,533**

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

	2018	2017
Within one year:		
In HUF	(15%)–1.04%	(18%)–0.9%
In foreign currency	(0.4%)–2.6%	(0.38%)–1.9%
Over one year:		
In HUF	0%–0.68%	0%–2.67%
In foreign currency	0.1%–8.49%	(0.27%)–0.5%
Average interest on amounts due to banks in HUF	0.93%	2.12%
Average interest on amounts due to banks in foreign currency	2.29%	2.90%

NOTE 15: DEPOSITS FROM CUSTOMERS (in HUF mn)

	2018	2017
Within one year:		
In HUF	4,787,625	4,266,829
In foreign currency	904,245	901,876
	5,691,870	**5,168,705**
Over one year:		
In HUF	48,100	22,633
	48,100	**22,633**
Subtotal	**5,739,970**	**5,191,338**
Accrued interest	1,528	1,531
Total	**5,741,498**	**5,192,869**

Interest rates on deposits from customers are as follows:

	2018	2017
Within one year in HUF	(5.11%)–9.69%	(5%)–9.69%
Over one year in HUF	0%–6.96%	0%–10.10%
In foreign currency	(0.42%)–23%	(0.4%)–12.25%
Average interest on deposits from customers in HUF	0.04%	0.08%
Average interest on deposits from customers in foreign currency	0.29%	0.15%

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

	2018		2017	
Retail deposits	**2,943,431**	**51%**	**2,562,571**	**49%**
Household deposits	2,943,431	51%	2,562,571	49%
Corporate deposits	**2,796,539**	**49%**	**2,628,767**	**51%**
Deposits corporates	2,339,855	41%	2,095,613	41%
Municipality deposits	456,684	8%	533,154	10%
Total	**5,739,970**	**100%**	**5,191,338**	**100%**

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

	2018	2017
Within one year:		
In HUF	9,397	12,930
In foreign currency	4,817	6,818
	14,214	**19,748**
Over one year:		
In HUF	32,460	40,538
In foreign currency	–	1
	32,460	**40,539**
Subtotal	**46,674**	**60,287**
Accrued interest	20	17
Total	**46,694**	**60,304**

Interest rates on liabilities from issued securities are as follows:

	2018	2017
Issued securities denominated in HUF	0.2%–1.7%	0.2%–1.75%
Issued securities denominated in foreign currency	1–2.6%	1%–1.67%
Average interest on issued securities denominated in HUF	0.29%	0.09%
Average interest on issued securities denominated in foreign currency	3.22%	0.44%

Issued securities denominated in foreign currency as at 31 December 2018:

	Name	Date of issuance	Maturity	Currency	Nominal value in FX million	Nominal value in HUF million	Interest conditions (in % actual)	
1	OTP_VK1_19/I	16/02/2018	16/02/2019	USD	3.04	855	2.51	variable
2	OTP_VK1_19/3	18/05/2018	18/05/2019	USD	2.99	839	2.26	variable
3	OTP_VK1_19/4	28/06/2018	28/06/2019	USD	2.98	838	2.31	variable
4	OTP_VK1_19/2	29/03/2018	29/03/2019	USD	2.83	796	2.60	variable
5	OTP_VK1_19/6	04/10/2018	04/10/2019	USD	2.07	581	1.00	variable
6	OTP_VK1_19/8	20/12/2018	20/12/2019	USD	1.50	420	1.00	variable
7	OTP_VK1_19/7	15/11/2018	15/11/2019	USD	0.89	250	1.00	variable
8	OTP_VK1_19/5	06/08/2018	06/08/2019	USD	0.85	238	1.00	variable
Total issued securities in FX						**4,817**		

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

On 19 July 2018 the Bank initiated term note program in the value of HUF 200 billion with the intention of issuing registered dematerialized bonds in public. The NBH approved on 13 August 2018 the prospectus of Term Note Program and the disclosure as at 16 August 2018. The prospectus is valid for 12 months following the disclosure.
The Issuer can initiate to introduce the bonds issued under the program to the Hungarian, Slovakian, Romanian, Bulgarian and Croatian Stock Exchange without any obligations.

Hedge accounting

Certain structured bonds are hedged by interest rate swaps which may transfer to a transferee a fixed interest rate and enter into an interest rate swap with the transferee to receive a fixed interest rate and pay a variable interest rate and amount of the structure if any based on a notional amount which is equal to the notional amount of the hedged bond. In certain cases amount of the structure is hedged by options which give the owner the right to get amount of the structure which is equal to the structure of the hedged bond. The hedge is highly effective if changes in fair value or cash-flows attributable to the hedged risk during the period for which the hedge is designated are within a range of 80–125 per cent.
The cash-flows of the fixed rate securities issued by the Bank are exposed to the change in the HUF/EUR foreign exchange rate and the risk of change in the quoted interest rates of EUR and HUF. The interest rate risk and foreign exchange risk related to these securities are hedged with EUR and HUF interest rate swap ("IRS") transactions, where the fixed interests were swapped to payments linked to 3 month HUF BUBOR and EURIBOR, resulting in a decrease in the interest rate and foreign exchange exposure of issued securities.

Issued securities denominated in HUF as at 31 December 2018:

	Name	Date of issuance	Maturity	Nominal value in HUF million	Interest conditions (in % actual)		Hedged
1	OTPX2019D	22/03/2013	21/03/2019	3,470	indexed	NaN	hedged
2	OTPX2020E	18/06/2014	22/06/2020	3,268	indexed	0.70	hedged
3	OTPX2020F	10/10/2014	16/10/2020	2,867	indexed	0.20	hedged
4	OTPX2019E	28/06/2013	24/06/2019	2,812	indexed	0.60	hedged
5	OTPRF2021B	20/10/2011	25/10/2021	2,534	indexed	NaN	hedged
6	OTPX2020G	15/12/2014	21/12/2020	2,493	indexed	0.30	hedged
7	OTPRF2020C	11/11/2010	05/11/2020	2,485	indexed	NaN	hedged
8	OTPRF2021A	05/07/2011	13/07/2021	2,361	indexed	NaN	hedged
9	OTPRF2020A	12/07/2010	20/07/2020	2,068	indexed	NaN	hedged
10	OTPRF2022A	22/03/2012	23/03/2022	1,804		2	hedged
11	OTPRF2020B	12/07/2010	20/07/2020	1,203	indexed	NaN	hedged
12	OTP_DK_19/I	31/05/2018	31/05/2019	1,113	discount	NaN	
13	OTP_DK_19/II	15/12/2018	31/05/2019	1,046	discount	NaN	
14	OTP_DK_20/I	15/12/2018	31/05/2020	794	discount	NaN	
15	OTPRF2023A	22/03/2013	24/03/2023	650		2	hedged
16	OTPRF2022B	22/03/2012	23/03/2022	625		2	hedged
17	OTPRF2022E	29/10/2012	31/10/2022	620		2	hedged
18	OTP_DK_21/I	15/12/2018	31/05/2021	532	discount	NaN	
19	OTPRF2022F	28/12/2012	28/12/2022	468		2	hedged
20	OTPRF2021C	21/12/2011	30/12/2021	464	indexed	NaN	hedged
21	OTP_DK_22/I	15/12/2018	31/05/2022	362	discount	NaN	
22	OTPX2023A	22/03/2013	24/03/2023	353	indexed	1.70	hedged
23	OTPX2024B	10/10/2014	16/10/2024	324	indexed	0.70	hedged
24	OTPRF2021D	21/12/2011	30/12/2021	323	indexed	NaN	hedged
25	OTPX2021D	21/12/2011	27/12/2021	285	indexed	NaN	hedged
26	OTPX2022D	28/12/2012	27/12/2022	280	indexed	1.70	hedged
27	OTPX2024C	15/12/2014	20/12/2024	272	indexed	0.60	hedged
28	OTPX2020B	28/06/2010	09/07/2020	267	indexed	NaN	hedged
29	OTPX2021B	17/06/2011	21/06/2021	264	indexed	NaN	hedged
30	OTPX2020A	25/03/2010	30/03/2020	251	indexed	NaN	hedged
31	OTPX2021C	19/09/2011	24/09/2021	241	indexed	NaN	hedged
32	OTPX2024A	18/06/2014	21/06/2024	241	indexed	1.30	hedged
33	OTPX2023B	28/06/2013	26/06/2023	240	indexed	0.60	hedged
34	OTPX2019B	05/10/2009	14/10/2019	238	indexed	NaN	hedged
35	OTPX2019C	14/12/2009	20/12/2019	238	indexed	NaN	hedged
36	OTPX2021A	01/04/2011	01/04/2021	235	indexed	NaN	hedged
37	OTPX2022A	22/03/2012	23/03/2022	229	indexed	NaN	hedged
38	OTPX2022C	29/10/2012	28/10/2022	227	indexed	1.70	hedged
39	OTPRF2022D	28/06/2012	28/06/2022	222		2	hedged
40	OTPX2019A	25/06/2009	01/07/2019	211	indexed	NaN	hedged
41	OTPX2022B	18/07/2012	18/07/2022	201	indexed	1.70	hedged
42	OTPX2020D	16/12/2010	18/12/2020	177	indexed	NaN	hedged
43	OTPX2020C	11/11/2010	05/11/2020	176	indexed	NaN	hedged
44	OTPRF2022C	28/06/2012	28/06/2022	166		2	hedged
45	OTP_DK_23/I	15/12/2018	31/05/2023	86	discount	NaN	
46	OTPRF2021E	21/12/2011	30/12/2021	58	indexed	NaN	hedged
47	OTPX2019B	05/10/2009	14/10/2019	48	indexed	NaN	hedged
48	Other			226			
	Subtotal issued securities in HUF			**40,118**			
	Unamortized premium			(81)			
	Fair value hedge adjustment			1,820			
	Total issued securities in HUF			**41,857**			
	Accrued interest			20			
	Total issued securities			**46,694**			

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

	2018	2017
Within one year:		
In HUF	3,321	–
	3,321	**–**
Over one year:		
In HUF	28,809	–
	28,809	**–**
Subtotal	**32,130**	**–**
Accrued interest	101	–
Total	**32,231**	**–**

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

	2018	2017
Within one year:		
In HUF	0.01%–2.68%	–
Over one year:		
In HUF	0.01%–2.68%	–
Average interest on amounts due to banks in HUF	1.10%	–

A reconciliation of the carrying amount of financial liabilities designated as fair value through profit or loss is as follows:

	2018	2017
Contractual amount	30,810	–
Fair value adjustment due to market risk	1,320	–
Gross carrying amount	**32,130**	**–**

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

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

	2018	2017
IRS	29,776	30,871
Foreign currency swaps	26,654	14,326
CCIRS and mark-to-market CCIRS	17,164	22,759
Other derivative contracts*	9,244	11,589
Total	**82,838**	**79,545**

* Incl.: FX, equity, commodity and index futures; FX forward; commodity and equity swap; FRA; FX option.

NOTE 19: OTHER LIABILITIES* (in HUF mn)

	2018	2017
Liabilities from investment services	68,036	52,565
Liabilities from customer's credit card payments	38,722	23,340
Technical accounts	32,414	10,313
Accrued expenses	20,139	21,710
Liabilities due to short positions	13,784	5,221
Accounts payable	11,767	12,455
Provision on off-balance sheet commitments, contingent liabilities	11,385	19,759
Salaries and social security payable	10,967	15,919
Current income tax payable	8,528	8,337
Liabilities related to housing loans	8,018	7,799
Other	12,810	15,942
Subtotal	**236,570**	**193,360**
Fair value of derivative financial instruments designated as hedge accounting	6,925	17,179
Total	**243,495**	**210,539**

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

	2018	2017
Provision for losses on other off-balance sheet commitments and contingent liabilities	8,494	10,007
Provision for litigation	691	1,207
Provision for retirement pension and severance pay	1,000	1,000
Provision for losses on commitments related to investment in Serbian Factoring Ltd.	–	5,214
Provision on other liabilities	1,200	2,331
Total	**11,385**	**19,759**

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

	2018	2017
IRS designated as fair value hedge	6,050	17,179
IRS designated as cash-flow hedge	523	–
CCIRS designated as fair value hedge	352	–
Total	**6,925**	**17,179**

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

	2018	2017
Opening balance	**19,759**	**15,297**
Effect of transition to application of IFRS 9	(4,030)	-
Provision for the period	23,000	32,980
Release of provision	(27,344)	(28,518)
Closing balance	**11,385**	**19,759**

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

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

	2018	2017
Over one year:		
In foreign currency	109,995	108,377
Subtotal	**109,995**	**108,377**
Accrued interest	459	458
Total	**110,454**	**108,835**

Interest rates on subordinated bonds and loans are as follows:

	2018	2017
Subordinated bonds and loans denominated in foreign currency	2.68%	2.67%
Average interest on subordinated bonds and loans denominated in foreign currency	2.68%	2.78%

Subordinated loans and bonds are detailed as follows as at 31 December 2018:

Type	Nominal value	Date of issuance	Date of maturity	Issue price	Interest conditions	Interest rate
Subordinated bond	EUR 342.1 million	07/11/2006	Perpetual	99.375%	Three-month EURIBOR +3%, variable after year 10 (payable quarterly)	2.683%

NOTE 21: SHARE CAPITAL (in HUF mn)

	2018	2017
Authorized, issued and fully paid:		
Ordinary shares	28,000	28,000

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

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

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

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

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

On 19 October 2006 the Bank sold 14.5 million Treasury shares owned by OTP Group through an issue of Income Certificates Exchangeable for Shares ("ICES"). Within the transaction

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

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

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

Share capital

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

Share-based payment reserve

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

Retained earnings

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

Put option reserve

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

Other comprehensive income

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

General reserve

The Bank shall place ten per cent of the after tax profit of the year into general reserve prescribe by the Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises. The Bank is allowed to use general reserves only to cover operating losses arising from their activities.

Tied-up reserve

The tied-up reserve shall consist of sums tied up from the capital reserve and from the retained earnings.

The equity correlation table of the Bank based on paragraph 114/B of Act on Accounting as at 31 December 2018:

31 December 2018 Closing	Share Capital	Capital reserve	Share-based payment reserve	Retained earnings and reserves	Option reserve	Treasury Shares	Revaluation reserve	Tied-up reserve	Net profit for the year	Total
Components of Shareholder's equity in accordance with IFRS	**28,000**	**52**	**35,632**	**1,504,690**	**(55,468)**	**(1,964)**	**–**	**–**	**–**	**1,510,942**
Unused portion of reserve for developments	–	–	–	(1,473)	–	–	–	1,473	–	**–**
Other comprehensive income	–	–	–	(43,910)	–	–	43,910	–	–	**–**
Portion of supplementary payment recognised as an asset	–	–	–	(310)	–	–	–	–	–	**(310)**
Option reserve	–	(55,468)	–	–	55,468	–	–	–	–	**–**
Treasury shares	–	(1,964)	–	–	–	1,964	–	–	–	**–**
Share based payments	–	35,632	(35,632)	–	–	–	–	–	–	**–**
Net profit for the year	–	–	–	(173,442)	–	–	–	–	173,442	–
General reserve	–	–	–	(76,788)	–	–	–	76,788	–	**–**
Components of Shareholder's equity in accordance with paragraph 114/B of Act on Accounting	**28,000**	**(21,748)**	**–**	**1,208,767**	**–**	**–**	**43,910**	**78,261**	**173,442**	**1,510,632**

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

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

	31 December 2018	1 January 2018
Retained earnings	1,208,767	1,047,901
Net profit for the year	173,442	251,550
Untied retained earnings	**1,382,209**	**1,299,451**

NOTE 23: TREASURY SHARES (in HUF mn)

	2018	2017
Nominal value (ordinary shares)	17	100
Carrying value at acquisition cost	1,964	9,540

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

Change in number of shares:

	2018	2017
Number of shares as at 1 January	**1,002,456**	**1,263,462**
Additions	1,358,018	1,441,203
Disposals	(2,190,622)	(1,702,209)
Number of shares at the end of the period	**169,852**	**1,002,456**

Change in carrying value:

	2018	2017
Balance as at 1 January	**9,540**	**8,709**
Additions	14,238	13,510
Disposals	(21,814)	(12,679)
Closing balance	**1,964**	**9,540**

	2018	2017
Treasury shares at OTP group members	1,831	1,727

NOTE 24: LOSS ALLOWANCE OF LOANS AT AMORTISED COST AND PLACEMENTS WITH OTHER BANKS (in HUF mn)

	2018	2017
Loss allowance of loan at amortised cost		
Loss allowance	98,759	76,050
Release of loss allowance	(106,761)	(87,202)
Loan losses	14,929	18,959
	6,927	**7,807**
Loss allowance of placements with other banks		
Loss allowance	2,760	–
Release of loss allowance	(1,865)	(32)
	895	**(32)**
Loss allowance of loans at amortised cost and placements with other banks	**7,822**	**7,775**

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

Income from fees and commissions:

	2018	2017
Fees and commissions related to lending	**4,768**	**8,309**
Deposit and account maintenance fees and commissions	94,300	84,667
Fees and commission related to the issued bank cards	65,447	60,066
Fees and commissions related to security account management services	22,713	28,235
Fees and commissions paid by OTP Mortgage Bank Ltd.	12,791	14,254
Net insurance fee income	8,599	6,966
Other	3,938	4,262
Fees and commissions from contracts with customers	**207,788**	**198,450**
Total Income from fees and commissions:	**212,556**	**206,759**
Contract balances		
Receivables, which are included in 'other assets'	6,178	3,545
Loss allowance	(49)	(264)
Liabilities which are included in 'other liabilities'	(103)	(76)

Performance obligations and revenue recognition policies:

Fee type	Nature and timing of satisfaction of performance obligations, and the significant payment terms	Revenue recognition under IFRS 15
Deposit and account maintenance fees and commissions	The Bank provides a number of account management services for both retail and corporate customers in which they charge a fee. Fees related to these services can be typically account transaction fees (money transfer fees, direct debit fees, money standing order fees, etc.), internet banking fees (e.g. OTPdirect fee), account control fees (e.g. sms fee), or other fees for occasional services (account statement fees, other administration fees, etc.). Fees for ongoing account management services are charged to the customer's account on a monthly basis. The fees are commonly fix amounts that can be vary per account package and customer category. In the case of the transaction based fees where the services include money transfer the fee is charged when the transaction takes place. The rate of the fee is typically determined in a certain % of the transaction amount. In case of other transaction-based fees (e.g. SMS fee), the fee is settled monthly. In case of occasional services the Bank basically charges the fees when the services are used by the customer. The fees can be fixed fees or they can be set in %. The rates are reviewed by the Bank regularly.	Fees for ongoing account management services are charged on a monthly basis during the period when they are provided. Transaction-based fees are charged when the transaction takes places or charged monthly at the end of the month.
Fees and commission related to the issued bank cards	The Bank provides a variety of bank cards to its customers, for which different fees are charged. The fees are basically charged in connection with the issuance of cards and the related card transactions. The annual fees of the cards are charged in advance in a fixed amount. The amount of the annual card fee depends on the type of card. In case of transaction-based fees (e.g. cash withdrawal/payment fee, merchant fee, interchange fee, etc.), the settlement of the fees will take place immediately after the transaction or on a monthly basis. The fee is typically determined in % of the transaction with a fixed minimum amount. For all other cases where the Bank provides a continuous service to the customers (e.g. card closing fee), the fees are charged monthly. The fee is calculated in a fix amount. The rates are reviewed by the Bank regularly.	Fees for ongoing services are charged on a monthly basis during the period when they are provided. Transaction-based fees are charged when the transaction takes places or charged monthly at the end of the month.
Fees and commissions related to security account management services	The Bank provides its clients with security account management services. Fees will be charged for account management and transactions on accounts. Account management fees are typically charged quarterly or annually. The amount is determined in%, based on the stocks of securities managed by the clients on the account in a given period. Fees for transactions on the securities account are charged immediately after the transaction. They are determined in%, based on the transaction amount. Fees for complex services provided to clients (e.g. portfolio management or custody) are typically charged monthly or annually. The fees are fixed monthly amounts and in some cases a bonus fee are charged.	Fees for ongoing services are charged quarterly or annually during the period when they are provided. The fees are accrued monthly. Transaction-based fees are charged when the transaction takes places.

Fee type	Nature and timing of satisfaction of performance obligations, and the significant payment terms	Revenue recognition under IFRS 15
Fees and commissions paid by OTP Mortgage Bank Ltd.	The Bank provides a number of services to its subsidiaries, in connection with fees are charged. These fees typically include services related to various warranties and guarantees, credit account management, agency activities, and marketing activities. The credit account management fee granted to OTP Mortgage Bank is settled on a monthly basis. It has a fixed part that is based on the number of the managed credit accounts, and a variable one determined by the profit split method. The fees for the guarantee services provided by the Bank are charged monthly. The fee is determined by% and based on the stock being guaranteed. Fees for agent services are charged monthly. The rate is %, based on the products sold during the period.	Fees for ongoing services are charged on a monthly basis during the period when they are provided. Transaction-based fees are charged when the transaction takes places.
Net insurance fee income	Due to the fact that the Bank does not provide insurance services to its clients, only acts as an agent, the fee income charged to the customers and fees payable to the insurance company are presented net in the fee income. In addition, agency fee charged for the sale of insurance contracts is also recorded in this line. The fee is charged on a monthly basis and determined in %.	Fees for ongoing services are charged on a monthly basis during the period when they are provided.
Other	Fees that are not significant in the Banks total income are included in Other fees category. Such fees are safe lease, special procedure fee, account rent fee, adlak service fee, fee of a copy of document, etc. Other fees may include charges for continuous services or for ad hoc administration services. Continuous fees are charged monthly (e.g., safe lease fees) at the beginning of the period, typically at a fixed rate. Fees for ad hoc services are charged immediately after the service obligation had been met, typically also in a fixed amount.	Fees for ongoing services are charged on a monthly basis during the period when they are provided. Fees for ad hoc services are charged when the transaction takes places.

Expenses from fees and commissions:

	2018	2017
Other fees and commissions related to issued bank cards	25,024	19,070
Insurance fees	3,958	3,058
Fees and commissions related to lending	1,736	4,446
Fees and commissions related to security trading	1,122	914
Fees and commissions relating to deposits	1,087	935
Trust activites related to securities	574	409
Postal fees	246	250
Money market transaction fees and commissions	122	351
Other	470	922
Total Expenses from fees and commissions	**34,339**	**30,355**
Net profit from fees and commissions	**178,217**	**176,404**

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

Other operating income	2018	2017
Gains on transactions related to property activities	219	222
Gains on sale of receivables	290	5,190
Income from lease of tangible assets	599	619
Other	4,071	3,959
Total	**5,179**	**9,990**

Net other operating expenses	2018	2017
Release of loss allowance on other assets	10,078	25,664
Release of provision/(Provision) for off-balance sheet commitments and contingent liabilities	4,343	(4,462)
Loss allowance on securities at amortised cost	(191)	–
Fine imposed by Competition Authority	(1,441)	(18)
Losses on other assets	(2,949)	(2,408)
Financial support for sport association and organization of public utility	(3,979)	(7,331)
Non-repayable assets contributed	(4,397)	(1,156)
(Provision for impairment)/Release of provision on investments in subsidiaries	(4,436)	65,200
Other	(2,051)	(4,130)
Total (expense)/gain	**(5,023)**	**71,359**

Other administrative expenses	2018	2017
Personnel expenses		
Wages	76,164	64,115
Taxes related to personnel expenses	17,254	16,407
Other personnel expenses	11,401	9,922
Subtotal	**104,819**	**90,444**
Depreciation and amortization:	**21,232**	**20,486**

Other administrative expenses	2018	2017
Taxes, other than income tax*	72,084	67,055
Services	31,158	28,603
Administration expenses, including rental fees	27,286	25,195
Professional fees	12,313	12,747
Advertising	8,263	7,855
Subtotal	**151,104**	**141,455**
Total	**277,155**	**252,385**

NOTE 27: INCOME TAX (in HUF mn)

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

A breakdown of the income tax expense is:

	2018	2017
Current tax expense	1,670	878
Deferred tax expense	9,521	17,989
Total	**11,191**	**18,867**

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

	2018	2017
Balance as at 1 January	**7,991**	**27,603**
Deferred tax expense in recognised income	(9,521)	(17,989)
Deferred tax income/(expense) in other comprehensive income	2,771	(1,623)
Closing balance	**1,241**	**7,991**

* Special tax of financial institutions was paid by OTP Bank in the amount of HUF 5.4 and 11 billion for the year 2018 and 2017, recognized as an expense thus decreased the corporate tax base. In the year ended 31 December 2018 financial transaction duty was paid by the Bank in the amount of HUF 57 billion.

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

	2018	2017
Unused tax allowance	5,330	11,452
Refundable tax in accordance with Acts on Customer Loans	245	2,294
Goodwill	–	1,268
Amounts unenforceable by tax law	–	120
Tax accrual caused by unused negative taxable income	–	873
Fair value adjustment of derivative financial instruments	13	188
Deferred tax assets	**5,588**	**16,195**
Fair value adjustment of held for trading and FVOCI securities	(4,034)	(6,817)
Difference in transition to IFRS	–	(896)
Difference in depreciation and amortization	(313)	(315)
Effect of using effective interest rate method	–	(176)
Deferred tax liabilities	**(4,347)**	**(8,204)**
Net deferred tax asset	**1,241**	**7,991**

A reconciliation of the income tax expense is as follows:

	2018	2017
Profit before income tax	184,633	270,417
Income tax at statutory tax rate (9%)	16,617	24,338
Income tax adjustments due to permanent differences are as follows:		
Deferred use of tax allowance	6,122	10,492
Share-based payment	342	324
Permanent differences from unused tax losses	118	–
Differences in transition to IFRS	–	(3,503)
Amounts unenforceable by tax law	(17)	(481)
Use of tax allowance in the current year	(4,835)	(6,964)
Dividend income	(6,164)	(7,437)
Other	(992)	2,098
Income tax	**11,191**	**18,867**
Effective tax rate	6.1%	7.0%

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn)

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
Financial instruments may result in certain risks to the Bank. The most significant risks the Bank faces include:

28.1 Credit risk

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

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

28.1.1 Analysis by loan types

Classification into risk classes

The Bank classifies financial assets measured at amortised cost and fair value through other comprehensive income, and loan commitments and financial guarantees into the following categories in accordance with IFRS 9:

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

In the case of trade receivables, contract assets and lease receivables the Bank applies the simplified approach and calculates only lifetime expected credit loss.

A client or loan must be qualified as default if from the following two conditions, one or both of them occurs:

- if the client delays more than 90 days. This is objective criterion.
- there is the possibility that the client won't pay all of its obligation. This condition is examined on the basis of probability criterions of default.

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

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

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

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

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

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

Expected credit losses are measured in a way that reflects:

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

Individual and collective assessment of expected credit losses

The following exposures are subject to collective valuation methods:

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

Debt securities and corporate bonds are assessed collectively, excluding stage 3 portfolios and portfolios under workout management.

Exposures are classified into DPD categories based on their delinquencies.

The following non-retail or SME exposures are classified individually:

- stage 3 exposures
- exposures under workout management
- purchased or originated credit impaired financial assets

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

Gross carrying amount and accumulated loss allowance of financial assets at amortized cost and fair value through other comprehensive income by IFRS 9 stages as at 31 December 2018:

	Carrying amount	Gross carrying amount/ Stage 1	Stage 2
Cash, amounts due from banks and balances with the National Bank of Hungary	360,855	360,855	–
Placements with other banks, net of allowance for placement losses	1,074,840	1,075,281	1,606
Retail consumer loans	**388,276**	**384,300**	**11,242**
Mortgage loans	**143,806**	**110,012**	**22,874**
Municipal loans	**97,005**	**91,754**	**1,622**
Corporate loans	**1,957,031**	**1,862,267**	**88,900**
Loans at amortised cost	2,586,118	2,448,333	124,638
FVOCI securities*	1,451,905	1,451,905	–
Securities at amortised cost	1,431,789	1,433,457	–
Total as at 31 December 2018	**6,905,507**	**6,782,859**	**113,216**
Loan commitments	1,313,715	1,293,192	20,182
Financial guarantees	828,000	818,209	9,641
Loan commitments and financial guarantees total	**2,133,383**	**2,111,401**	**29,823**

Gross carrying amount and accumulated loss allowance of financial assets at amortized cost and fair value through other comprehensive income in accordance with IAS 39 by IFRS 9 stages as at 31 December 2017:

	Carrying amount	Gross carrying amount/ Stage 1	Stage 2
Cash, amounts due from banks and balances with the National Bank of Hungary	296,018	295,667	351
Placements with other banks, net of allowance for placement losses	978,098	975,390	2,708
Retail consumer loans	**327,816**	**318,354**	**13,233**
Mortgage loans	**171,544**	**119,824**	**39,426**
Municipal loans	**43,574**	**33,666**	**5,968**
Corporate loans	**1,602,112**	**1,533,558**	**29,550**
Loans at amortised cost	2,145,046	2,005,402	88,177
FVOCI securities	1,735,902	1,735,902	–
Securities at amortised cost	1,043,779	1,043,779	–
Total as at 31 December 2017	**6,198,843**	**6,056,140**	**91,236**
Transition to application of IFRS 9	(55,721)	(39,340)	(274)
Total as at 31 December 2017 in accordance with IFRS 9	**6,143,122**	**6,016,800**	**90,962**
Loan commitments	1,039,733	1,037,563	8,580
Financial guarantees	608,230	609,043	1,654
Loan commitments and financial guarantees total	**1,647,963**	**1,646,606**	**10,234**
Transition to application of IFRS 9	4,031	–	–
Loan commitments and financial guarantees total in accordance with IFRS 9	**1,651,994**	**1,646,606**	**10,234**

* FVOCI securities are measured at fair value in the Statement of Financial Position (see Note 7). Loss allowance for FVOCI securities is recognised in the Statement of Other Comprehensive Income, which is included in the accumulated loss allowance of this table.

Notional amount			Loss allowance/Provision				
Stage 3	Purchased or originated credit impaired	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired	Total
–	–	360,855	–	–	–	–	–
–	–	1,076,887	2,035	12	–	–	2,047
5,835	34	401,411	86	766	4,461	10	13,135
10,639	5,968	149,493	560	35	4,057	778	5,687
5,388	–	98,764	11,039	9,287	1,164	–	1,759
41,110	10,426	2,002,703	16,541	13,896	24,465	881	45,672
62,972	16,428	2,652,371	17,339	13,098	34,147	1,669	66,253
–	–	1,451,905	1,859	–	–	–	1,859
–	–	1,433,457	1,668	–	–	–	1,668
62,972	**16,428**	**6,975,475**	**22,901**	**13,110**	**34,147**	**1,669**	**71,827**
341	–	1,313,715	4,276	1,249	164		5,689
150	–	828,000	1,909	671	63	–	2,643
491	**–**	**2,141,715**	**6,185**	**1,920**	**227**	**–**	**8,332**

Notional amount			Loss allowance/Provision				
Stage 3	Purchased or originated credit impaired	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired	Total
–	–	296,018	–	–	–	–	–
–	–	978,098	–	–	–	–	–
5,931	83	337,601	5,198	2,190	2,371	26	9.785
13,779	5,454	178,483	209	578	5,431	721	6.939
5,291	–	44,925	128	26	1,197	–	1.351
81,037	9,400	1,653,545	5,110	497	45,058	768	51.433
106,038	14,937	2,214,554	10,645	3,291	54,057	1,515	69.508
–	–	1,735,902	–	–	–	–	–
–	–	1,043,779	–	–	–	–	–
106,038	**14,937**	**6,268,351**	**10,645**	**3,291**	**54,057**	**1,515**	**69.508**
(41)	(2,021)	(41,676)	6,464	5,679	1,902	–	14.045
105,997	**12,916**	**6,226,675**	**17,109**	**8,970**	**55,959**	**1,515**	**83.553**
716	–	1,046,859	6,960	68	98	–	7.126
414	–	611,111	2,328	395	158	–	2.881
1,130	**–**	**1,657,970**	**9,288**	**463**	**256**	**–**	**10.007**
–	–	–	(3,911)	(240)	120	–	–4.031
1,130	**–**	**1,657,970**	**5,377**	**223**	**376**	**–**	**5.976**

Changes in the Loss allowance of financial assets at amortised cost and fair value through other comprehensive by IFRS 9 stages (for the year ended 31 December 2018):

Loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 1 January 2018 IFRS 9	**11,990**	**8,970**	**55,959**	**1,515**	**78,439**
Transfer to Stage 1	160	(3,123)	(665)	–	**(3,628)**
Transfer to Stage 2	(401)	7,343	(2,088)	–	**4,854**
Transfer to Stage 3	(96)	(1,334)	3,713	–	**2,283**
Net remeasurement of loss allowance	(1,151)	253	(3,718)	777	**(3,844)**
New financial assets originated or purchased	8,900	3,235	9,512	29	**21,676**
Financial assets that have been derecognised (other than write-offs)	(2,804)	(1,420)	(26,789)	(482)	**(31,495)**
Unwind of discount	–	–	2,939	505	**3,444**
Write-offs	(57)	(28)	(4,716)	(675)	**(5,476)**
Loss allowance as at 31 December 2018	**16,541**	**13,896**	**34,147**	**1,669**	**66,253**

Loan commitments and financial guarantees	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2018 IFRS 9	**5,377**	**223**	**376**	**5,976**
Transfer to Stage 1	31	(137)	(90)	**(196)**
Transfer to Stage 2	(94)	1,432	(24)	**1,314**
Transfer to Stage 3	(3)	(2)	91	**86**
Net remeasurement of loss allowance	21	94	13	**128**
New financial assets originated or purchased	1,104	170	1	**1,275**
Decrease	(251)	140	(140)	**(251)**
Loss allowance as at 31 December 2018	**6,185**	**1,920**	**227**	**8,332**

Placements with other banks, net of allowance for placement losses	Stage 1	Stage 2	Total
Loss allowance as at 1 January 2018 IFRS 9	**1,257**	**–**	**1,257**
Net remeasurement of loss allowance	208	–	**208**
New financial assets originated or purchased	1,099	12	**1,111**
Financial assets that have been derecognised (other than write-offs)	(529)	–	**(529)**
Loss allowance as at 31 December 2018	**2,035**	**12**	**2,047**

Securities at amortised cost	Stage 1	Total
Loss allowance as at 1 January 2018 IFRS 9	**1,477**	**1,477**
Net remeasurement of loss allowance	168	**168**
New financial assets originated or purchased	108	**108**
Financial assets that have been derecognised (other than write-offs)	(85)	**(85)**
Loss allowance as at 31 December 2018	**1,668**	**1,668**

FVOCI Securities	Stage 1	Total
Loss allowance as at 1 January 2018 IFRS 9	**2,380**	**2,380**
Net remeasurement of loss allowance	(143)	**(143)**
New financial assets originated or purchased	560	**560**
Financial assets that have been derecognised (other than write-offs)	(938)	**(938)**
Loss allowance as at 31 December 2018	**1,859**	**1,859**

Loan portfolio by countries

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

	2018		2017	
Country	Gross loan and placement with other banks portfolio	Loss allowance	Gross loan and placement with other banks portfolio	Loss allowance
Hungary	2,631,797	(53,027)	2,373,404	(37,685)
Malta	565,112	(1,821)	465,497	–
Serbia	119,146	(3,630)	39,393	(3,255)
Slovakia	77,760	(54)		
Bulgaria	67,964	(2,586)	56,846	(1,399)
Romania	59,680	(1,325)	23,807	(2,988)
Croatia	32,556	(75)	36,604	(14)
Belgium	26,812	(74)	18,571	–
France	26,013	(3)	6,087	–
Switzerland	24,743	(188)	–	–
Cyprus	19,263	(620)	41,536	(14,113)
United Kingdom	18,020	(24)	43,782	–
Russia	14,298	(2,398)	17,835	(1,830)
Other	46,094	(2,475)	69,290	(8,224)
Loans and placements with other banks at amortised cost total	**3,729,258**	**(68,300)**	**3,192,652**	**(69,508)**
Hungary	32,745	–	–	–
Loans at fair value total	**32,745**	**–**	**–**	**–**
Loans and placements with other banks total	**3,762,003**	**(68,300)**	**3,192,652**	**(69,508)**

28.1.2 Collaterals

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

Types of collateral	2018	2017
Mortgages	1,161,094	1,073,509
Guarantees and warranties	388,753	273,462
Deposit	127,856	119,887
from this: Cash	42,160	47,354
Securities	82,079	69,742
Other	3,617	2,791
Assignment	121	160
Other	682	1,172
Total	**1,678,506**	**1,468,190**

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

Types of collateral	2018	2017
Mortgage	429,424	421,699
Guarantees and warranties	264,171	162,297
Deposit	66,448	57,938
from this: Cash	10,700	11,331
Securities	52,654	45,150
Other	3,094	1,457
Assignment	67	72
Other	588	912
Total	**760,698**	**642,918**

The coverage level of loan portfolio to the extent of the exposures increased from 20.14% to 20.40% as at 31 December 2018, while the coverage to the total collateral value decreased from 45.99% to 45.01%.

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

	Gross carrying amount	Loss allowance	Carrying amount	Collateral value
Mortgage loans	10,639	(4,057)	6,582	44,471
Municipal loans	5,388	(1,164)	4,224	7,923
Corporate loans	41,110	(24,465)	16,645	31,223
Total	**57,137**	**(29,686)**	**27,451**	**83,617**

28.1.3 Restructured loans

	2018		2017	
	Gross portfolio	Loss allowance	Gross portfolio	Loss allowance
Consumer loans	3,973	(1,729)	4,845	(98)
Mortgage loans	4,623	(331)	31,976	(399)
Corporate loans*	13,101	(2,303)	14,147	(93)
SME loans	2,469	(362)	718	(7)
Total	**24,166**	**(4,724)**	**51,686**	**(598)**

Restructured portfolio definition

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

Financial instruments by rating categories**

Held-for-trading securities as at 31 December 2018:

	A1	A2	A3	Aa3	Aaa	Ba2	Baa1	Baa2	Baa3	Not rated	Total
Other non-interest-bearing securities	–	–	–	–	–	–	–	–	–	7,169	7,169
Government bonds	–	–	–	–	277	–	–	–	10,149	112	10,538
Mortgage bonds	–	–	–	–	–	–	–	–	972	–	972
Hungarian government discounted Treasury Bills	–	–	–	–	–	–	–	–	1,059	–	1,059
Shares Hungarian government interest bearing Treasury Bills	–	–	–	–	–	–	–	–	–	–	–
Shares	51	43	6	25	–	7	24	6	4	205	371
Other securities	–	–	–	–	–	–	–	–	1,456	637	2,093
Total	**51**	**43**	**6**	**25**	**277**	**7**	**24**	**6**	**13,640**	**8,123**	**22,202**
Accrued interest											120
Total											**22,322**

Securities mandatorily at fair value through profit or loss as at 31 December 2018:

	Not rated	Total
Government bonds	4,754	4,754
Mortgage bonds	15,879	15,879
Total	**20,633**	**20,633**
Accrued interest		25
Total		**20,658**

* Also includes project and syndicated loans.
** Moody's ratings.

FVOCI securities as at 31 December 2018:

	A2	A3	Ba1	Ba2	Ba3	Baa1	Baa2	Baa3	Not rated	Total
Mortgage bonds	–	–	–	–	–	53,703	–	148,220	23,042	224,965
Government bonds	15,163	6,076	32,219	3,152	6,388	6,819	12,513	787,481	–	869,811
Hungarian government interest bearing Treasury Bills	–	–	–	–	–	–	–	234,399	–	234,399
Other non-interest bearing securities	–	–	–	–	–	–	–	–	4,345	4,345
Shares	–	–	–	–	–	–	–	–	15,029	15,029
Other bonds	–	1,613	–	–	–	–	1,423	32,789	50,517	86,342
Total	**15,163**	**7,689**	**32,219**	**3,152**	**6,388**	**60,522**	**13,936**	**1,202,889**	**92,933**	**1,434,891**
Accrued interest										17,014
Provision for impairment										–
Total										**1,451,905**

Securities at amortised cost as at 31 December 2018:

	Baa3	Total
Government bonds	1,408,031	1,408,031
Mortgage bonds	4,708	4,708
Subtotal	**1,412,739**	**1,412,739**
Accrued interest		20,718
Provision for impairment		(1,668)
Total		**1,431,789**

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

	2018		2017	
Country	**Gross carrying amount**	**Loss allowance**	**Gross carrying amount**	**Loss allowance**
Hungary	1,433,457	(1,668)	1,043,779	–
Securities at amortised cost total	**1,433,457**	**(1,668)**	**1,043,779**	**–**
Hungary	1,307,438	–	1,566,919	(86)
Russia	34,154	–	26,123	–
Slovakia	27,342	–	51,941	–
Poland	15,300	–	20,598	–
Bulgaria	12,684	–	10,432	–
Romania	11,752	–	3,752	–
Austria	11,318	–	9,963	–
Slovenia	7,052	–	10,297	–
Serbia	6,501	–	6,357	–
Lithuania	6,220	–	6,071	–
Luxembourg	4,249	–	8,302	–
Croatia	3,211	–	–	–
United States of America	3,146	–	2,410	–
Sweden	1,443	–	1,423	–
Portugal	95	–	12	–
Spain	–	–	11,388	–
FVOCI securities total	**1,451,905**	**–**	**1,735,988**	**(86)**
Hungary	20,902	–	171,136	–
Luxembourg	759	–	17,537	–
United States of America	390	–	843	–
Germany	269	–	281	–
Canada	2	–	–	–
Russia	–	–	16,895	–
Ireland	–	–	3	–
Netherlands	–	–	19	–
France	–	–	1	–
Held for trading securities total	**22,322**	**–**	**206,715**	**–**
Hungary	15,879	–	–	–
Luxembourg	4,779	–	–	–
Securities mandatorily measured at fair value through profit or loss	**20,658**	**–**	**–**	**–**
Securities total	**2,928,342**	**(1,668)**	**2,986,482**	**(86)**

28.2 Maturity analysis of assets and liabilities and liquidity risk

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

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

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

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

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

Due to the balance sheet adjustment process (deleveraging) experienced in the last few years, the liquidity reserves of the Bank increased significantly while the liquidity risk exposure has decreased considerably. Currently the (over) coverage of risk liquidity risk exposure by high quality liquid assets is at all-time record highs. In 2018 there were no material changes in the liquidity risk management process.

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

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

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

As at 31 December 2018:

	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	360,855	–	–	–	–	360,855
Placements with other banks, net of allowance for placement losses	178,396	583,643	214,512	98,289	–	1,074,840
Financial assets at fair value through profit or loss	3,666	3,684	4,112	3,457	20,743	35,662
Securities at fair value through other comprehensive income	161,230	316,138	649,969	236,262	19,104	1,382,703
Loans	767,748	526,660	839,943	484,512	–	2,618,863
Investment properties	–	–	–	–	2,333	2,333
Investments in subsidiaries, associates and other investments	–	–	–	–	1,177,573	1,177,573
Securities at amortised cost	25,394	110,812	719,339	518,041	–	1,373,586
Other financial assets	40,148	217	–	–	–	40,365
TOTAL ASSETS	**1,537,437**	**1,541,154**	**2,427,875**	**1,340,561**	**1,219,753**	**8,066,780**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	268,317	19,868	408,234	41,617	–	738,036
Deposits from customers	5,606,687	86,398	32,161	16,252	–	5,741,498
Liabilities from issued securities	5,367	8,873	29,878	837	–	44,955
Subordinated bonds and loans	459	–	–	109,998	–	110,457
Financial liabilities at fair value through profit or loss	576	2,757	10,418	18,480	–	32,231
Other financial liabilities	99,942	–	–	–	–	99,942
TOTAL LIABILITIES	**5,981,348**	**117,896**	**480,691**	**187,184**	**–**	**6,767,119**
NET POSITION	**(4,443,911)**	**1,423,258**	**1,947,184**	**1,153,377**	**1,219,753**	**1,299,661**
Receivables from derivative financial instruments classified as held for trading	2,706,784	910,253	491,372	493,496	–	4,601,905
Liabilities from derivative financial instruments classified as held for trading	(2,681,228)	(911,351)	(399,983)	(351,368)	–	(4,343,930)
Net position of derivative financial instruments classified as held for trading	**25,556**	**(1,098)**	**91,389**	**142,128**	**–**	**257,975**
Receivables from derivative financial instruments designated as hedge accounting	3,469	5,093	253,412	71,025	–	332,999
Liabilities from derivative financial instruments designated as hedge accounting	(3,215)	(163,000)	(426,646)	(32,099)	–	(624,960)
Net position of derivative financial instruments designated as hedging accounting	254	(157,907)	(173,234)	38,926	–	(291,961)
Net position of derivative financial instruments total	**25,810**	**(159,005)**	**(81,845)**	**181,054**	**–**	**(33,986)**
Commitments to extend credit	283,691	827,693	189,721	12,610	–	1,313,715
Bank guarantees	105,742	64,370	91,755	566,976	–	828,843
Off-balance sheet commitments	**389,433**	**892,063**	**281,476**	**579,586**	**–**	**2,142,558**

As at 31 December 2017:

	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	399,124	–	–	–	–	399,124
Placements with other banks, net of allowance for placement losses	138,742	632,540	133,921	72,895	–	978,098
Financial assets at fair value through profit or loss	54,086	68,088	71,472	1,960	4,458	200,064
Securities at fair value through other comprehensive income	149,840	378,622	797,039	258,019	28,287	1,611,807
Loans	588,355	447,458	733,058	376,178	–	2,145,049
Investment properties	–	–	–	–	2,374	2,374
Investments in subsidiaries, associates and other investments	–	–	–	–	967,414	967,414
Securities at amortised cost	17,592	59,000	400,460	520,304	–	997,356
Other financial assets	34,568	440	–	–	–	35,008
TOTAL ASSETS	**1,382,307**	**1,586,148**	**2,135,950**	**1,229,356**	**1,002,533**	**7,336,294**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	342,518	46,614	228,411	76,990	–	694,533
Deposits from customers	5,007,487	162,666	7,739	14,977	–	5,192,869
Liabilities from issued securities	5,942	13,825	33,845	2,037	–	55,649
Subordinated bonds and loans	458	–	–	108,377	–	108,835
Other financial liabilities	86,709	21	1	–	–	86,731
TOTAL LIABILITIES	**5,443,114**	**223,126**	**269,996**	**202,381**	**–**	**6,138,617**
NET POSITION	**(4,060,807)**	**1,363,022**	**1,865,954**	**1,026,975**	**1,002,533**	**1,197,677**
Receivables from derivative financial instruments classified as held for trading	1,576,859	980,684	602,924	177,124	–	3,337,591
Liabilities from derivative financial instruments classified as held for trading	(1,737,269)	(804,796)	(537,437)	(212,736)	–	(3,292,238)
Net position of derivative financial instruments classified as held for trading	(160,410)	175,888	65,487	(35,612)	–	45,353
Receivables from derivative financial instruments designated as fair value hedge	3,879	60,909	154,571	65,355	–	284,714
Liabilities from derivative financial instruments designated as fair value hedge	–	(306,221)	(464,003)	(20,238)	–	(790,462)
Net position of derivative financial instruments designated as hedging instrument	**3,879**	**(245,312)**	**(309,432)**	**45,117**	**–**	**(505,748)**
Net position of derivative financial instruments total	**(156,531)**	**(69,424)**	**(243,945)**	**9,505**	**–**	**(460,395)**
Commitments to extend credit	245,680	587,238	201,540	12,402	–	1,046,860
Bank guarantees	54,439	82,349	87,204	388,107	–	612,099
Off-balance sheet commitments	**300,119**	**669,587**	**288,744**	**400,509**	**–**	**1,658,959**

28.3 Net foreign currency position and foreign currency risk

As at 31 December 2018:

	USD	EUR	CHF	Others	Total
Assets*	264,205	1,279,816	35,863	218,536	1,798,420
Liabilities	(280,240)	(872,965)	(26,934)	(137,730)	(1,317,869)
Derivative financial instruments	31,969	(510,272)	(8,775)	(78,002)	(565,080)
Net position	**15,934**	**(103,421)**	**154**	**2,804**	**(84,529)**

As at 31 December 2017:

	USD	EUR	CHF	Others	Total
Assets*	251,432	986,017	36,244	177,509	1,451,202
Liabilities	(259,500)	(895,639)	(23,947)	(127,053)	(1,306,139)
Derivative financial instruments	10,927	(178,924)	(10,035)	(54,467)	(232,499)
Net position	**2,859**	**(88,546)**	**2,262**	**(4,011)**	**(87,436)**

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

28.4 Interest rate risk management

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

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

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

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

* The assets category contains foreign currency investments in subsidiaries that are measured at cost, and are deducted from the net position calculation.

As at 31 December 2018:

	within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest–bearing		Total		Total
	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	
ASSETS															
Cash, amounts due from banks and balances with the National Bank of Hungary	**26,894**	**117,623**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**197,766**	**18,572**	**224,660**	**136,195**	**360,855**
fixed interest	26,894	117,623	–	–	–	–	–	–	–	–	–	–	26,894	117,623	144,517
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	197,766	18,572	197,766	18,572	216,338
Placements with other banks, net of allowance for placement losses	**130,405**	**60,039**	**487,764**	**65,592**	**51,692**	**75,304**	**1,151**	**3,208**	**131,682**	**25,597**	**31,174**	**11,232**	**833,868**	**240,972**	**1,074,840**
fixed interest	4,401	12,062	27,509	46,364	22,371	73,711	1,151	3,208	131,682	25,597	–	–	187,114	160,942	348,056
variable interest	126,004	47,977	460,255	19,228	29,321	1,593	–	–	–	–	–	–	615,580	68,798	684,378
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	31,174	11,232	31,174	11,232	42,406
Securities held for trading	**197**	**564**	**1,510**	**112**	**6,879**	**5,521**	**–**	**–**	**–**	**–**	**7,244**	**295**	**15,830**	**6,492**	**22,322**
fixed interest	2	–	67	112	4,910	5,521	–	–	–	–	–	–	4,979	5,633	10,612
variable interest	195	564	1,443	–	1,969	–	–	–	–	–	–	–	3,607	564	4,171
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	7,244	295	7,244	295	7,539
Securities mandatorily measured at fair value through profit or loss	**–**	**4,778**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**15,880**	**–**	**15,880**	**4,778**	**20,658**
variable interest	–	4,778	–	–	–	–	–	–	–	–	–	–	–	4,778	4,778
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	15,880	–	15,880	–	15,880
Securities at fair value through other comprehensive income	**68,525**	**5,464**	**141,848**	**30,405**	**366,647**	**1,930**	**242,827**	**18,083**	**355,750**	**201,051**	**566**	**18,809**	**1,176,163**	**275,742**	**1,451,905**
fixed interest	48,869	5,464	60,908	17,549	320,053	1,930	242,827	18,083	355,750	201,051	–	–	1,028,407	244,077	1,272,484
variable interest	19,656	–	80,940	12,856	46,594	–	–	–	–	–	–	–	147,190	12,856	160,046
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	566	18,809	566	18,809	19,375
Loans	**100,965**	**131,383**	**557,742**	**865,556**	**45,658**	**61,812**	**22,359**	**1,752**	**635,415**	**45,254**	**98,355**	**19,867**	**1,460,494**	**1,125,624**	**2,586,118**
fixed interest	16,727	125,609	628	1,268	14,922	10,847	20,092	1,752	627,631	45,254	–	–	680,000	184,730	864,730
variable interest	84,238	5,774	557,114	864,288	30,736	50,965	2,267	–	7,784	–	–	–	682,139	921,027	1,603,166
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	98,355	19,867	98,355	19,867	118,222
Loans mandatorily measured at fair value through profit or loss	**32,741**	**–**	**4**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**32,745**	**–**	**32,745**
variable interest	32,741	–	4	–	–	–	–	–	–	–	–	–	32,745	–	32,745
Securities at amortised cost	**–**	**–**	**5,063**	**–**	**114,843**	**–**	**87,284**	**–**	**1,224,599**	**–**	**–**	**–**	**1,431,789**	**–**	**1,431,789**
fixed interest	–	–	5,063	–	114,843	–	87,284	–	1,224,599	–	–	–	1,431,789	–	1,431,789
Other financial instruments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**36,245**	**4,120**	**36,245**	**4,120**	**40,365**
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	36,245	4,120	36,245	4,120	40,365
Derivative financial assets	**842,720**	**477,551**	**906,538**	**442,944**	**645,964**	**447,835**	**19,192**	**264,144**	**21,335**	**86,116**	**234,159**	**126,585**	**2,669,908**	**1,845,175**	**4,515,083**
fixed interest	814,446	475,487	756,961	409,011	643,141	409,508	19,192	264,144	21,335	86,116	–	–	2,255,075	1,644,266	3,899,341
variable interest	28,274	2,064	149,577	33,933	2,823	38,327	–	–	–	–	–	–	180,674	74,324	254,998
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	234,159	126,585	234,159	126,585	360,744
LIABILITIES															
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	**405,239**	**139,449**	**4,153**	**55,330**	**1,152**	**22,846**	**1,514**	**–**	**98,302**	**280**	**8,593**	**1,178**	**518,953**	**219,083**	**738,036**
fixed interest	378,351	44,280	4,153	16,450	1,152	2,798	1,514	–	98,302	280	–	–	483,472	63,808	547,280
variable interest	26,521	95,026	–	38,880	–	20,048	–	–	–	–	–	–	26,521	153,954	180,475
non-interest-bearing	367	143	–	–	–	–	–	–	–	–	8,593	1,178	8,960	1,321	10,281
Financial liabilities at fair value through profit or loss	**32,231**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**32,231**	**–**	**32,231**
fixed interest	127	–	–	–	–	–	–	–	–	–	–	–	127	–	127
variable interest	32,104	–	–	–	–	–	–	–	–	–	–	–	32,104	–	32,104
Deposits from customers	**776,851**	**186,738**	**137,071**	**66,001**	**43,433**	**21,122**	**316**	**–**	**3,878,011**	**628,739**	**1,026**	**2,190**	**4,836,708**	**904,790**	**5,741,498**
fixed interest	409,363	121,045	137,071	66,001	43,433	21,122	316	–	3,878,011	628,739	–	–	4,468,194	836,907	5,305,101
variable interest	367,488	65,693	–	–	–	–	–	–	–	–	–	–	367,488	65,693	433,181
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	1,026	2,190	1,026	2,190	3,216
Liabilities from issued securities	**23,609**	**838**	**12,114**	**1,903**	**4,211**	**2,094**	**780**	**–**	**1,145**	**–**	**–**	**–**	**41,859**	**4,835**	**46,694**
fixed interest	–	–	–	–	2,156	–	780	–	1,145	–	–	–	4,081	–	4,081
variable interest	23,609	838	12,114	1,903	2,055	2,094	–	–	–	–	–	–	37,778	4,835	42,613
Subordinated bonds and loans	**–**	**–**	**–**	**110,454**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**110,454**	**110,454**
fixed interest	–	–	–	110,454	–	–	–	–	–	–	–	–	–	110,454	110,454
Other financial instruments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**88,899**	**11,043**	**88,899**	**11,043**	**99,942**
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	88,899	11,043	88,899	11,043	99,942
Derivative financial liabilities	**1,100,223**	**222,002**	**963,409**	**364,545**	**615,478**	**473,561**	**273,251**	**14,581**	**39,921**	**60,613**	**219,675**	**133,304**	**3,211,957**	**1,268,606**	**4,480,563**
fixed interest	1,072,047	212,543	823,305	341,397	613,026	441,110	273,251	14,581	39,921	60,613	–	–	2,821,550	1,070,244	3,891,794
variable interest	28,176	9,459	140,104	23,148	2,452	32,451	–	–	–	–	–	–	170,732	65,058	235,790
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	219,675	133,304	219,675	133,304	352,979
NET POSITION	**(1,135,706)**	**248,375**	**983,722**	**806,376**	**567,409**	**72,779**	**96,952**	**272,606**	**(1,648,598)**	**(331,614)**	**303,196**	**51,765**	**(833,025)**	**1,120,287**	**287,262**

As at 31 December 2017:

	within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest-bearing		Total		Total
	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	
ASSETS															
Cash, amounts due from banks and balances with the National Bank of Hungary	**204,673**	**91,346**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**93,451**	**9,654**	**298,124**	**101,000**	**399,124**
fixed interest	204,673	91,346	–	–	–	–	–	–	–	–	–	–	204,673	91,346	296,019
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	93,451	9,654	93,451	9,654	103,105
Placements with other banks, net of allowance for placement losses	**313,305**	**79,223**	**421,698**	**20,073**	**3,197**	**16,056**	**25,181**	**–**	**96,535**	**2,830**	**–**	**–**	**859,916**	**118,182**	**978,098**
fixed interest	40,097	58,735	1,063	3,318	3,197	3,679	25,181	–	96,535	2,830	–	–	166,073	68,562	234,635
variable interest	273,208	20,488	420,635	16,755	–	12,377	–	–	–	–	–	–	693,843	49,620	743,463
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Securities held for trading	**11,657**	**194**	**33,664**	**6,342**	**66,722**	**15,058**	**43,938**	**9,201**	**1,480**	**5,871**	**11,694**	**894**	**169,155**	**37,560**	**206,715**
fixed interest	11,657	–	33,040	6,342	50,384	15,058	43,938	9,201	1,480	5,871	–	–	140,499	36,472	176,971
variable interest	–	194	624	–	16,338	–	–	–	–	–	–	–	16,962	194	17,156
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	11,694	894	11,694	894	12,588
Securities at fair value through other comprehensive income	**96,610**	**17,230**	**70,013**	**25,444**	**378,449**	**13,466**	**229,078**	**20,026**	**620,104**	**215,242**	**31,821**	**18,419**	**1,426,075**	**309,827**	**1,735,902**
fixed interest	58,092	–	50,493	–	354,614	13,466	229,078	20,026	620,104	215,242	–	–	1,312,381	248,734	1,561,115
variable interest	38,518	17,230	19,520	25,444	23,835	–	–	–	–	–	–	–	81,873	42,674	124,547
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	31,821	18,419	31,821	18,419	50,240
Loans	**546,758**	**293,065**	**316,668**	**544,879**	**110,470**	**30,330**	**48,042**	**11,053**	**201,600**	**42,181**	**–**	**–**	**1,223,538**	**921,508**	**2,145,046**
fixed interest	36,263	3,361	23,382	6,132	54,185	12,281	46,799	11,053	178,605	42,181	–	–	339,234	75,008	414,242
variable interest	510,495	289,704	293,286	538,747	56,285	18,049	1,243	–	22,995	–	–	–	884,304	846,500	1,730,804
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Securities at amortised cost	**–**	**–**	**–**	**–**	**59,004**	**–**	**116,374**	**–**	**850,809**	**–**	**17,592**	**–**	**1,043,779**	**–**	**1,043,779**
fixed interest	–	–	–	–	59,004	–	116,374	–	850,809	–	–	–	1,026,187	–	1,026,187
variable interest	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	17,592	–	17,592	–	17,592
Other financial instruments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**31,430**	**3,578**	**31,430**	**3,578**	**35,008**
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	31,430	3,578	31,430	3,578	35,008
Derivative financial instruments	**738,965**	**345,105**	**669,088**	**411,851**	**417,975**	**303,805**	**27,319**	**22,221**	**20,581**	**27,869**	**620,839**	**226,643**	**2,494,767**	**1,337,494**	**3,832,261**
fixed interest	718,076	341,564	492,515	409,530	413,526	291,636	26,856	22,221	20,581	27,869	–	–	1,671,554	1,092,820	2,764,374
variable interest	20,889	3,541	176,573	2,321	4,449	12,169	463	–	–	–	–	–	202,374	18,031	220,405
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	620,839	226,643	620,839	226,643	847,482
LIABILITIES															
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	**100,458**	**152,435**	**145,258**	**112,014**	**46,795**	**5,174**	**17,854**	**4,711**	**104,844**	**4,990**	**–**	**–**	**415,209**	**279,324**	**694,533**
fixed interest	83,124	32,303	144,919	4,422	37,867	3,953	17,839	4,711	104,095	4,990	–	–	387,844	50,379	438,223
variable interest	17,334	120,132	339	107,592	8,928	1,221	15	–	749	–	–	–	27,365	228,945	256,310
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Deposits from customers	**1,359,708**	**275,686**	**116,693**	**56,982**	**46,938**	**14,797**	**801**	**–**	**2,766,638**	**554,626**	**–**	**–**	**4,290,778**	**902,091**	**5,192,869**
fixed interest	476,072	191,735	116,693	56,982	46,938	14,797	801	–	4,310	–	–	–	644,814	263,514	908,328
variable interest	883,636	83,951	–	–	–	–	–	–	2,762,328	554,626	–	–	3,645,964	638,577	4,284,541
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Liabilities from issued securities	**430**	**1,300**	**3,141**	**2,440**	**7,621**	**3,100**	**5,363**	**–**	**36,909**	**–**	**–**	**–**	**53,464**	**6,840**	**60,304**
fixed interest	430	–	3,141	–	7,621	192	5,363	–	36,909	–	–	–	53,464	192	53,656
variable interest	–	1,300	–	2,440	–	2,908	–	–	–	–	–	–	–	6,648	6,648
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Subordinated bonds and loans	**–**	**–**	**–**	**108,835**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**108,835**	**108,835**
variable interest	–	–	–	108,835	–	–	–	–	–	–	–	–	–	108,835	108,835
Other financial instruments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**79,413**	**7,318**	**79,413**	**7,318**	**86,731**
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	79,413	7,318	79,413	7,318	86,731
Derivative financial instruments	**875,512**	**207,857**	**909,079**	**147,644**	**397,702**	**319,233**	**43,494**	**9,167**	**35,935**	**38,342**	**372,879**	**464,774**	**2,634,601**	**1,187,017**	**3,821,618**
fixed interest	853,960	204,038	770,912	123,845	394,530	313,953	43,428	9,167	35,935	38,342	–	–	2,098,765	689,345	2,788,110
variable interest	21,552	3,819	138,167	23,799	3,172	5,280	66	–	–	–	–	–	162,957	32,898	195,855
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	372,879	464,774	372,879	464,774	837,653
NET POSITION	**(424,140)**	**188,885**	**336,960**	**580,674**	**536,761**	**36,411**	**422,420**	**48,623**	**(1,153,217)**	**(303,965)**	**354,535**	**(212,904)**	**73,319**	**337,724**	**411,043**

28.5 Market risk

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

28.5.1 Market risk sensitivity analysis

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

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

The VaR of the trading portfolio can be summarized as follows:

Historical VaR (99%, one-day) by risk type	Average (in HUF mn)	
	2018	2017
Foreign exchange	430	274
Interest rate	134	113
Equity instruments	33	10
Diversification	–	–
Total VaR exposure	**597**	**397**

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

28.5.2 Foreign currency sensitivity analysis

The following table details the OTP's sensitivity to an increase and decrease in the HUF exchange rate against the EUR and USD, over a 3 months period. Monte Carlo simulation is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items as strategic open positions related to foreign activities. The strategic open position related to the foreign operations was EUR (310) million as of 31 December 2018. The strategic EUR open FX position kept to hedge the currency risk of the expected FX-denominated net earnings of the main foreign subsidiaries. High portion of strategic positions are considered as effective hedge of future profit inflows of foreign subsidiaries, and so FX risk alters the bank's capital and not its earnings. A positive number below indicates an increase in profit where the HUF strengthens against the EUR.

For a weakening of the HUF against the EUR, there would be an equal and opposite impact on the profit, and the balances below would be negative.

Probability	Effects to the P&L in 3 months period in HUF billion	
	2018	2017
1%	(12.2)	(11.9)
5%	(8.3)	(8.1)
25%	(3.5)	(3.3)
50%	(0.4)	(0.3)
25%	2.6	2.6
5%	6.7	6.7
1%	9.6	9.4

Notes:

(1) The short-term loss on the strategic open position is compensated by the long-term exchange rate gain on the foreign operations.

(2) Monte Carlo simulation is based on the empirical distribution of the historical exchange rate movements between 2002 and 2018.

28.5.3 Interest rate sensitivity analysis

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

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

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

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

The net interest income in a one year period after 1 January 2019 would be decreased by HUF 1,185 million (scenario 1) and HUF 3,100 million (scenario 2) as a result of these simulation. This effect is counterbalanced by capital gains (HUF 268 million for scenario 1, HUF 3,331 million for scenario 2) on the government bond portfolio held for hedging.

Furthermore, the effects of an instant 10 bps parallel shift of the HUF, EUR and USD yield-curves on net interest income over a one-year period and on the market value of the hedge government bond portfolio booked against capital was analysed.

The results can be summarized as follows:

Description	2018 Effects to the net interest income (one-year period)	2018 Effects to shareholder's equity (Price change of FVOCI government bonds)	2017 Effects to the net interest income (one-year period)	2017 Effects to shareholder's equity (Price change of FVOCI government bonds)
Forint –0,1% párhuzamos eltolás	–1.662	671	–1.608	771
EUR –0,1% párhuzamos eltolás	–93	–	–144	–
USD –0,1% párhuzamos eltolás	–40	–	–89	–
Összesen	**–1.795**	**671**	**–1.841**	**771**

28.5.4 Equity price sensitivity analysis

The following table shows the effect of the equity price sensitivity. The Group uses VaR calculation with 1 day holding period and 99% confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognising offsetting positions and correlations between products and markets. The daily loss will not exceed the reported VaR number with 99% of probability.
The stress test assumes the largest price movement of the last year and calculates with it as the adverse direction. These scenario shows the loss of the portfolio when all prices change with the maximum amount of the last year.

Description	2018	2017
VaR (99%, one day, million HUF)	33	10
Stress test (million HUF)	(43)	(123)

28.6 Capital management

Capital management

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

Capital adequacy

The Capital Requirements Directive package (CRDIV/CRR) transposes the global standards on banking regulation (commonly known as the Basel III agreement) into the EU legal framework. The rules are applied from 1 January 2014. They set stronger prudential requirements for institutions, requiring them to keep sufficient capital reserves and liquidity. This 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 Bank has entirely complied with the regulatory capital requirements in 2018 as well as in 2017. The Bank's capital adequacy calculation is in line with IFRS and based on Basel III as at 31 December 2017 and 31 December 2018.
The Bank uses the standard method for determining the regulatory capital requirements of the credit risk and market risk while in case of the operational risk the Advanced Measurement Approach (AMA).

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

	Basel III	
	2018	2017
Tier1 capital	1,433,839	1,311,383
Common equity Tier1 capital (CET1)	1,433,839	1,311,383
Additional Tier1 capital (AT1)	–	–
Tier2 capital	109,994	108,377
Regulatory capital	**1,543,833**	**1,419,760**
Credit risk capital requirement	401,989	327,802
Market risk capital requirement	9,263	11,262
Operational risk capital requirement	26,466	22,547
Total requirement regulatory capital	**437,718**	**361,611**
Surplus capital	**1,106,115**	**1,058,149**
CET1 ratio	26.21%	29.01%
Capital adequacy ratio	**28.22%**	**31.41%**

Basel III

Common equity Tier1 capital (CET1):
Issued capital, Capital reserve, useable part of Tied-up reserve, General reserve, Profit reserve, Profit for the year, Treasury shares, Intangible assets, deductions due to investments, adjustments due to temporary disposals.
Tier2 capital: Subsidiary loan capital, Subordinated loan capital, deductions due to repurchased loan capital and Subordinated loan capital issued by the OTP Bank, adjustments due to temporary disposals.

NOTE 29: TRANSFER AND RECLASSIFICATION OF FINANCIAL (in HUF mn)

Reclassification from securities held-for-trading to securities measured at fair value through other comprehensive income:

Date of reclassification	Reason for reclassification	Type of securities	Nominal value at reclassification	Fair value at the date of reclassification	EIR at the date of reclassification	Interest income
1 September 2018	Change in business model	retail hungarian government bonds	66,506	66,484	2%–6.4%	643

During the year 2018, securities issued by the Hungarian Government with the nominal value of HUF 66.506 million were transferred from the trading portfolio to the securities measured at fair value through other comprehensive income. The Bank has previously held retail government bonds in the portfolio measured at fair value through other comprehensive income. During 2018 the Bank changed the business model of the retail government bonds to manage all on the basis of a single business model aimed at collecting the future contractual cash-flows and/or selling them.

In 2018, the terms and conditions of sale of retail government bonds and the pricing environment have changed significantly, as a result of which the Bank is no longer able to maintain its sole trading intent with these securities that the Bank applied earlier. Due to the decrease in transaction volume and the changes in conditions, the Bank has chosen to keep the securities and realise its cash-flows, however also realising potential gains by making favourable buy-sell transaction on the market.

Financial assets transferred but not derecognised:

	Transferred assets	Associated liabilities
	Carrying amount	
Financial assets at fair value through other comprehensive income		
Debt securities	19,105	19,290
Total	**19,105**	**19,290**
Financial assets at amortised cost		
Debt securities	261,824	260,362
Total	**261,824**	**260,362**
Total	**280,929**	**279,652**

As at 31 December 2018, the Bank had obligation from repurchase agreements about HUF 280 billion. Securities sold temporarily under repurchase agreements will continue to be recognized in the Statement of Financial Position of the Bank in the appropriate securities category. The related liability is measured at amortized cost in the Statement of Financial Position as 'Amounts due to banks and Hungarian Government deposits from the National Bank of Hungary and other banks'. Under these repurchase agreements only Hungarian and foreign government bonds were transferred.

NOTE 30: OFF-BALANCE SHEET ITEMS (in HUF mn)

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

Contingent liabilities and commitments	2018	2017
Commitments to extend credit	1,313,715	1,046,860
Guarantees arising from banking activities	828,843	612,099
from this: Payment undertaking liabilities (related to issue of mortgage bonds) of OTP Mortgage Bank	472,213	278,960
Contingent liabilities and commitments total in accordance with IFRS 9	**2,142,558**	**1,658,959**
Legal disputes (disputed value)	3,772	5,231
Confirmed letters of credit	96	90
Other	191,907	159,119
Contingent liabilities and commitments total in accordance with IAS 37	**195,775**	**164,440**
Total	**2,338,333**	**1,823,399**

Legal disputes

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

The Bank believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash-flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation. Provision due to legal disputes was HUF 691 million and HUF 1,207 million as at 31 December 2018 and 31 December 2017, respectively. (See Note 19)

Commitments to extend credit, guarantees and letter of credit

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

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

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

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

Guarantees, payment undertakings arising from banking activities

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

Contingent liabilities related to OTP Mortgage Bank Ltd.

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

NOTE 31: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF mn)

Previously approved option program required a modification thanks to the introduction of the Bank Group Policy on Payments accepted in resolution of Annual General Meeting regarding to the amendment of CRD III. Directives and Act on Credit Institutions and Financial Enterprises. Key management personnel affected by the Bank Group Policy receive compensation based on performance assessment generally in the form of cash bonus and equity shares in a ratio of 50–50%. Assignment is based on OTP shares, furthermore performance based payments are deferred in accordance with the rules of Credit Institutions Act.

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

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

The quantity of usable shares for individuals calculated for settlement of share-based payment shall be determined as the ratio of the amount of share-based payment and share price determined by Supervisory Board[2]

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

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

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

[2] Until the end of 2014 Board of Directors.

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

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

Year	Share purchasing at a discounted price			
	Exercise price	Maximum earnings per share	Exercise price	Maximum earnings per share
	(HUF per share)			
	for the year 2013		for the year 2014	
2014	2,522	2,500	–	–
2015	2,522	3,000	3,930	2,500
2016	2,522	3,500	3,930	3,000
2017	2,522	3,500	3,930	3,000
2018	–	–	3,930	3,000

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

	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
Year	Exercise price	Maximum earnings per share		Exercise price	Maximum earnings per share		Exercise price	Maximum earnings per share	
	(HUF per share)								
	for the year 2015			for the year 2016			for the year 2017		
2016	4,892	2,500	6,892	–	–	–	–	–	–
2017	4,892	3,000	6,892	7,200	2,500	9,200	–	–	–
2018	4,892	3,000	6,892	7,200	3,000	9,200	8,064	3,000	10,064
2019	4,892	3,000	6,892	7,200	3,500	9,200	8,064	3,500	10,064
2020	–	–	–	7,200	4,000	9,200	8,064	4,000	10,064
2021	–	–	–	–	–	–	8,064	4,000	10,064
2022	–	–	–	–	–	–	8,064	4,000	10,064

Based on parameters accepted by Board of Directors, relating to the year 2013 effective pieces are follows as at 31 December 2018:

	Approve pieces of shares	Exercised until 31 Dec. 2018	Weighted average share price at the date of exercise (in HUF)	Expire pieces	Exercisable at 31 Dec. 2018
Share-purchasing period started in 2014	406,044	404,263	4,369	1,781	–
Share-purchasing period started in 2015	804,469	804,469	4,918	–	–
Share-purchasing period started in 2016	393,750	393,750	6,775	–	–
Share-purchasing period starting in 2017	483,987	483,987	9,405	–	–

Based on parameters accepted by Board of Directors, relating to the year 2014 effective pieces are follows as at 31 December 2018:

	Approve pieces of shares	Exercised until 31 Dec. 2018	Weighted average share price at the date of exercise (in HUF)	Expire pieces	Exercisable at 31 Dec. 2018
Share-purchasing period started in 2015	176,459	176,459	5,828	–	–
Share-purchasing period started in 2016	360,425	359,524	7,011	901	–
Share-purchasing period starting in 2017	189,778	189,778	9,362	–	–
Share-purchasing period starting in 2018	223,037	200,433	10,097	–	22,604

Based on parameters accepted by Supervisory Board, relating to the year 2015 effective pieces are follows as at 31 December 2018:

	Approve pieces of shares	Exercised until 31 Dec. 2018	Weighted average share price at the date of exercise (in HUF)	Expire pieces	Exercisable at 31 Dec. 2018
Share-purchasing period started in 2016	152,247	152,247	7,373	–	–
Remuneration exchanged to share provided in 2016	10,947	10,947	6,509	–	–
Share-purchasing period starting in 2017	299,758	299,758	9,403	–	–
Remuneration exchanged to share applying in 2017	20,176	20,176	9,257	–	–
Share-purchasing period starting in 2018	166,047	151,489	10,009	–	14,558
Remuneration exchanged to share applying in 2018	9,229	9,229	10,098	–	–
Share-purchasing period starting in 2019	–	–	–	–	204,585
Remuneration exchanged to share applying in 2019	–	–	–	–	10,671

Based on parameters accepted by Supervisory Board, relating to the year 2016 effective pieces are follows as at 31 December 2018:

	Approve pieces of shares	Exercised until 31 Dec. 2018	Weighted average share price at the date of exercise (in HUF)	Expire pieces	Exercisable at 31 Dec. 2018
Share-purchasing period started in 2017	147,984	147,984	9,544	–	–
Remuneration exchanged to share provided in 2017	4,288	4,288	9,194	–	–
Share-purchasing period starting in 2018	321,528	314,769	10,283	–	6,759
Remuneration exchanged to share applying in 2018	8,241	8,241	10,098	–	–
Share-purchasing period starting in 2019	–	–	–	–	163,390
Remuneration exchanged to share applying in 2019	–	–	–	–	4,148
Share-purchasing period starting in 2020	–	–	–	–	172,356
Remuneration exchanged to share applying in 2020	–	–	–	–	4,567

Based on parameters accepted by Supervisory Board, relating to the year 2017 effective pieces are follows as at 31 December 2018:

	Approve pieces of shares	Exercised until 31 Dec. 2018	Weighted average share price at the date of exercise (in HUF)	Expire pieces	Exercisable at 31 Dec. 2018
Share-purchasing period starting in 2018	108,243	108,243	11,005	–	–
Remuneration exchanged to share applying in 2018	11,926	11,926	10,098	–	–
Share-purchasing period starting in 2019	–	–	–	–	212,263
Remuneration exchanged to share applying in 2019	–	–	–	–	26,293
Share-purchasing period starting in 2020	–	–	–	–	101,577
Remuneration exchanged to share applying in 2020	–	–	–	–	12,838
Share-purchasing period starting in 2021	–	–	–	–	120,981
Remuneration exchanged to share applying in 2021	–	–	–	–	12,838
Share-purchasing period starting in 2022	–	–	–	–	42,820
Remuneration exchanged to share applying in 2022	–	–	–	–	3,003

Effective pieces relating to the periods starting in 2019–2022 settled during valuation of performance of year 2015–2017, can be modified based on risk assessment and personal changes. In connection with shares given as a part of payments detailed in the **Direction Chief Executive about Remuneration of Work in OTP Bank** and the share-based compensation for Board of Directors and connecting compensation based on performance assessment accounted as equity-settled share based transactions, HUF 3,797 million was recognized as expense for the year ended 31 December 2018.

NOTE 32: RELATED PARTY TRANSACTIONS (in HUF mn)

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

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

a) Loans provided to related parties

	2018		2017	
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
OTP Mortgage Bank Ltd.	508,617	(690)	583,443	–
OTP Financing Malta Company Ltd. (Malta)	540,722	(1,715)	448,296	–
Merkantil Bank Ltd.	303,294	(784)	242,205	–
OTP Factoring Ltd.	33,119	(175)	63,548	–
Splitska banka (Croatia)	–	–	31,014	–
OTP Real Estate Leasing Ltd.	19,752	(299)	20,979	–
OTP Holding Malta Ltd.	24,388	(105)	17,201	–
OTP banka Srbija a.d. (Serbia)	41,564	(94)	10,258	–
CIL Babér Ltd.	5,718	(30)	5,710	–
Vojvodanska Banka ad Novi Sad	38,118	(126)	4,652	–
OTP Real Estate Ltd.	6,875	(36)	4,426	–
Merkantil Lease Ltd.	3,926	(21)	4,411	–
JN Parkolóház Llc.	4,284	(23)	2,786	–
Merkantil Real Estate Leasing Ltd.	4,777	(25)	2,344	–
SPLC-P Ltd.	1,337	(7)	2,156	(9)
OAO OTP Bank (Russia)	1,645	–	1,624	–
D-ÉG Thermoset Llc.	859	(837)	1,301	(1,273)
Other	59,481	(160)	2,475	–
Total	**1,598,476**	**(5,127)**	**1,448,829**	**(1,282)**

b) Deposits from related parties

	2018	2017
DSK Bank EAD (Bulgaria)	260,921	227,668
JSC "OTP Bank" (Russia)	94,394	73,669
OTP Mortgage Bank Ltd.	44,891	22,769
OTP Funds Servicing and Consulting Ltd.	43,132	39,349
OTP Building Society Ltd.	36,424	37,474
OTP banka Hrvatska d.d. (Croatia)	33,386	865
OTP Bank Romania S.A. (Romania)	26,329	1,688
Crnogorska komercijalna banka a.d (Montenegro)	12,541	3,977
Inga Kettő Ltd.	12,455	5,446
OTP Holding Ltd./OTP Financing Ciprus Co. Ltd. (Ciprus)	11,434	4,165
OTP Factoring Ltd.	9,225	4,899
Balansz Private Open-end Investment Fund	7,814	2,297
Merkantil Bank Ltd.	6,746	6,617
OTP Bank JSC (Ukraine)	6,429	17,591
OTP Financing Malta Company Ltd. (Malta)	4,184	3,405
Air-Invest Llc.	4,121	3,162
OTP Employee Stock Ownership Program (OTP ESOP)	4,063	1,454
Other	29,553	38,889
Total	**648,042**	**495,384**

c) Interests received by the Bank*

	2018	2017
OTP Financing Malta Company Ltd. (Malta)	9,829	8,282
Merkantil Bank Ltd.	3,996	3,760
OTP Mortgage Bank Ltd.	916	2,575
Other	718	1,487
Total	**15.459**	**16.104**

d) Interests paid by the Bank*

	2018	2017
JSC "OTP Bank" (Russia)	6,027	6,299
DSK Bank EAD (Bulgaria)	355	3,533
OTP Funds Servicing and Consulting Ltd.	208	79
Splitska banka (Croatia)	120	85
Crnogorska komercijalna banka a.d (Montenegro)	102	79
Other	255	511
Total	**7,067**	**10,586**

e) Commissions received by the Bank

	2018	2017
From OTP Fund Management Ltd. in relation to trading activity	4,744	5,110
From OTP Real Estate Investment Fund Management Ltd. in relation to trading activity	3,411	2,233
From OTP Building Society Ltd. (agency fee in relation to finalised customer contracts)	1,808	1,555
OTP Funds Servicing and Consulting Ltd.	527	410
OTP Mobile Service Llc.	440	–
From OTP Fund management Ltd. in relation to deposit services	341	397
From LLC MFO "OTP Finance" (Russia) (guarantee fee)	26	573
Other	570	474
Total	**11,867**	**10,752**

* Derivatives and interest on securities are not included.

f) Commissions paid by the Bank

	2018	2017
OTP Factoring Ltd. related to commission fee	248	225
Crnogorska komercijalna bank a.d. (Montenegro) related to loan portfolio management fee	–	14
Total	**248**	**239**

g) Transactions related to OTP Mortgage Bank Ltd.

	2018	2017
Fees and commissions received from OTP Mortgage Bank Ltd. relating to the loans	12,792	14,254
Loans sold to OTP Mortgage Bank Ltd. with recourse (including interest)	402	447
The gross book value of the loans sold	398	399

h) Transactions related to OTP Factoring Ltd.

	2018	2017
The gross book value of the loans sold	13,654	13,774
Provision for loan losses on the loans sold	8,348	7,398
Loans sold to OTP Factoring Ltd. without recourse (including interest)	4,747	4,914
Loss on these transaction (recorded in the separate financial statements as loan and placement loss)	559	1,462

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

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

	2018	2017
Securities issued by OTP Banka Slovensko a.s. (Slovakia) held by OTP Bank (nominal value in HUF million)	27,328	51,793

j) Related party transactions with key management

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

Compensations	2018	2017
Short-term employee benefits	2,316	2,416
Share-based payment	2,431	2,520
Long-term employee benefits (on the basis of IAS 19)	209	226
Total	**4,956**	**5,162**

	2018	2017
Loans provided to companies owned by the Management (in the normal course of business)	61,692	55,164
Commitments to extend credit and bank guarantees	37,567	38,530
Credit lines of the members of Board of Directors and the Supervisory Board and their close family members (at market conditions)	4,450	4,450

An analysis of Credit lines "A" is as follows:

	2018	2017
Members of Board of Directors and their close family members	84	84
Members of Supervisory Board and their close family members	4	3
Executive	117	77
Total	**205**	**164**

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

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

	2018	2017
Members of Board of Directors and their close family members	14	14
Members of Supervisory Board and their close family members	–	–
Executive	5	5
Total	**19**	**19**

Interest	floating, monthly 2.18%	floating, monthly 2.19%
Annual fee	15,404 HUF/year	15,044 HUF/year
Collateral	income received to bank account	income received to bank account

An analysis of loans related to Mastercard Bonus Gold is as follows:

	2018	2017
Executive	2	–
Total	**2**	**–**

Interest	floating, monthly 2.63%	–
Annual fee	4,084 HUF/year	–
Collateral	income received to bank account	–

An analysis of credit limit related to Amex Gold/Mastercard Bonus Gold is as follows:

	2018	2017
Members of Board of Directors and their close family members	2	2
Executive	35	10
Total	**37**	**12**

Interest	floating, monthly 2.44%	floating, monthly 2.45%
Annual fee	16,504 HUF/year	16,118 HUF/year
Collateral	income received to bank account	income received to bank account

An analysis of Amex Platinum/Visa Infinite is as follows:

	2018	2017
Members of Board of Directors and their close family members	17	17
Executive and their close family members	79	40
Total	**96**	**57**

Interest	floating, monthly 2.47%	floating, monthly 2.48%
Annual fee	19,678 Ft/year	19,217 Ft/year
Collateral	income received to bank account	income received to bank account

An analysis of Lombard loans is as follows:

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

An analysis of Personal loans is as follows:

	2018	2017
Executive	12	5
Interest	9.99% (7 mn HUF) 11.55% (5 mn HUF)	11.55%
Collateral	income received to bank account	income received to bank account

An analysis of Loans distributed by OTP Bank in its capacity of employee is as follows:

	2018	2017
Executive	2	–
Interest	–	–
Collateral	real estate	–

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

	2018	2017
Members of Board of Directors	1,119	857
Members of Supervisory Board	113	107
Total	**1,232**	**964**

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

NOTE 33: TRUST ACTIVITIES (in HUF mn)

The Bank acts as a trustee for certain loans granted by companies or employers to their employees, mainly for housing purposes. The ultimate risk for these loans rests with the party advancing the funds.

As these loans and related funds are not considered to be assets or liabilities of the Bank, they have been excluded from the accompanying separate statement of financial position.

	2018	2017
Loans managed by the Bank as a trustee	30,156	34,226

NOTE 34: CONCENTRATION OF ASSETS AND LIABILITIES

In the percentage of the total assets	2018	2015
Receivables from, or securities issued by the Hungarian Government or the NBH	26%	32%
Securities issued by the OTP Mortgage Bank Ltd.	1.80%	2.23%

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

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

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

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

NOTE 35: EARNINGS PER SHARE

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

	2018	2017
Net profit for the year attributable to ordinary shareholders (in HUF mn)	173,442	251,550
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	279,237,071	278,873,206
Basic Earnings per share (in HUF)	**621**	**902**
Separate net profit for the year attributable to ordinary shareholders (in HUF mn)	173,442	251,550
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	279,302,400	278,949,440
Diluted Earnings per share (in HUF)	**621**	**902**

	2018	2017
Weighted average number of ordinary shares	280,000,010	280,000,010
Average number of Treasury shares	(762,939)	(1,126,804)
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS	**279,237,071**	**278,873,206**
Dilutive effect of options issued in accordance with the Remuneration Policy/Management Option Program and convertible into ordinary shares*	65,329	76,233
The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS	**279,302,400**	**278,949,440**

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

* In 2018 and 2017 dilutive effect is in connection with the Remuneration Policy.

NOTE 36: NET GAIN OR LOSS REALISED ON FINANCIAL INSTRUMENTS (in HUF mn)

As at 31 December 2018:

	Net interest income and expense	Net non-interest gain and loss	Provision for impairment	Other comprehensive income
Cash, amounts due from banks and balances with the National Bank of Hungary	280	–	–	–
Placements with other banks, net of allowance for placement losses	6,143	–	895	–
Securities held for trading	3,155	(2,639)	–	–
Securities at fair value through other comprehensive income	40,551	2,305*	(553)	43,910
Loans	120,505	15,823	(8,002)	–
Securities at amortised cost	47,342	12,430	191	–
Derivative financial instruments	11,619	4,224	–	–
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	(11,103)	–	–	–
Deposits from customers	(4,552)	133,636	–	–
Liabilities from issued securities	(796)	–	–	–
Subordinated bonds and loans	(2,994)	–	–	–
Other	(40)	–	–	–
Total	**210,110**	**165,779**	**(7,469)**	**43,910**

As at 31 December 2017:

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

* In year 2018 HUF 2,305 million while in year 2017 HUF 4,419 million net non-interest gain on securities at fair value through other comprehensive income was transferred from other comprehensive income to profit or loss.

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn)

In determining the fair value of a financial asset or liability the Bank in the case of instruments that are quoted on an active market uses the market price. In most cases market price is not publicly available so the Bank has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 37 d) for more information about fair value classes applied for financial assets and liabilities measured at fair value in these financial statements.

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

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

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

For classes of assets and liabilities not measured at fair value in the statement of financial position, the income approach was used to convert future cash-flows to a single current amount. Fair value of current assets is equal to carrying amount, fair value of liabilities from issued securities and other bond-type classes of assets and liabilities not measured at fair value measured based on Reuters market rates and, fair value of other classes not measured at fair value of the statement of financial position are measured using the discounted cash-flow method. Fair value of loans, net of allowance for loan losses measured using discount rate adjustment technique, the discount rate is derived from observed rates of return for comparable assets or liabilities that are traded in the market. Fair value measurements – in relation to instruments measured not at fair value – are categorized in level 2 of the fair value hierarchy.

a) Fair value of financial assets and liabilities

	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash, amounts due from banks and balances with the National Bank of Hungary	360,855	360,855	399,124	399,124
Placements with other banks, net of allowance for placement losses	1,074,840	1,074,283	978,098	990,581
Financial assets at fair value through profit or loss	155,042	155,042	303,927	303,927
Held for trading securities	22,322	22,322	206,715	206,715
Derivative financial instruments classified as held for trading	112,062	112,062	97,212	97,212
Securities mandatorily measured at fair value through profit or loss	20,658	20,658	–	–
Securities at fair value through other comprehensive income	1,451,905	1,451,905	1,735,902	1,735,902
Loans*	2,618,863	2,791,633	2,145,046	2,286,645
Securities at amortised cost	1,431,789	1,495,025	1,043,779	1,149,034
Derivative financial instruments designated as hedging instruments	12,221	12,221	26,383	26,383
Other financial assets	40,365	40,365	35,008	35,008
FINANCIAL ASSETS TOTAL	**7,145,880**	**7,381,329**	**6,667,267**	**6,926,604**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	738,036	726,944	694,533	687,249
Deposits from customers	5,741,498	5,739,024	5,192,869	5,191,558
Liabilities from issued securities	46,694	55,199	60,304	76,701
Derivative financial instruments designated as hedging instruments	6,925	6,925	17,179	17,179
Financial liabilities at fair value through profit or loss	32,231	32,231	–	–
Held for trading derivative financial liabilities	82,838	82,838	79,545	79,545
Subordinated bonds and loans	110,454	101,648	108,835	105,702
Other financial liabilities	99,942	99,942	86,731	86,731
FINANCIAL LIABILITIES TOTAL	**6,858,618**	**6,844,751**	**6,239,996**	**6,244,665**

b) Derivative financial instruments

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

The assessment of the hedge effectiveness (both for fair value hedges and cash-flow hedges) to determine the economic relationship between the hedged item and the hedging instrument is accomplished with prospective scenario analysis via different rate shift scenarios of the relevant risk factor(s) of the hedged risk component(s). The fair value change of the hedged item and the hedging instrument is compared in the different scenarios. Economic relationship is justified if the change of the fair value of the hedged item and the hedging instrument are in the opposite direction and the absolute changes are similar amounts. The hedge ratio is determined as the ratio of the notional of the hedged item and the notional of the hedging instrument. The sources of hedge ineffectiveness are the not hedged risk components (e.g. change of cross currency basis spreads in case of interest rate risk hedges), slight differences in maturity dates and interest payment dates in case of fair value hedges, and differences between the carrying amount of the hedged item and the carrying amount of the hedging instrument in case of FX hedges (e.g. caused by interest rate risk components in the fair value of the hedging instrument).

* Fair value of loans increased due to decrease of short-term and long-term interests.

The Bank has the following held for trading derivatives and derivatives designated as hedge accounting:

	2018 Assets	2018 Liabilities
Held for trading derivative financial instruments		
Interest rate derivatives		
Interest rate swaps	22,862	(21,669)
Cross currency interest rate swaps	17,078	(17,164)
OTC options	256	(256)
Forward rate agreement	17	(57)
Total interest rate derivatives (OTC derivatives)	**40,213**	**(39,146)**
From this: Interest rate derivatives cleared by central counterparty	581	(142)
Foreign exchange derivatives		
Foreign exchange swaps	27,705	(25,982)
Foreign exchange forward	2,435	(2,914)
OTC options	3,310	(3,377)
Foreign exchange spot conversion	69	(32)
Total foreign exchange derivatives (OTC derivatives)	**33,519**	**(32,305)**
From this: Foreign exchange derivatives cleared by central counterparty	5,859	(1,741)
Equity stock and index derivatives		
Commodity Swaps	1,883	(1,048)
Equity swaps	6,728	(568)
OTC derivatives total	**8,611**	**(1,616)**
Exchange traded futures and options	105	(965)
Total equity stock and index derivatives	**8,716**	**(2,581)**
Derivatives held for risk management not designated in hedge		
Interest rate swaps	23,495	(8,107)
Foreign exchange swaps	5,675	(615)
Foreign exchange spot conversion	436	(57)
Forward	9	(26)
Total derivatives held for risk management not designated in hedge	**29,615**	**(8,805)**
From this: Total derivatives cleared by central counterparty held for risk management	119	(8,329)
Total Held for trading derivative financial instruments	**112,063**	**(82,837)**
Derivative financial instruments designated as hedge accounting		
Derivatives designated in cash-flow hedges		
Interest rate swaps	3,751	(523)
Total derivatives designated in cash-flow hedges	**3,751**	**(523)**
Derivatives designated in fair value hedges		
Interest rate swaps	4,467	(6,050)
Cross currency interest rate swaps	4,002	(352)
Total derivatives designated in fair value hedges	**8,469**	**(6,402)**
Total derivatives held for risk management (OTC derivatives)	**12,220**	**(6,925)**

c) Hedge accounting

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

Type of hedge	Type of risk	Type of instrument	Within one month	Within three months and over one month	Within one year and over three months	Within five years and over one year	More than five years	Total
Fair Value Hedge	**Interest rate risk**	**Interest rate swap**						
		HUF						
		Notional	–	–	163,114	289,600	368	**453,082**
		Average Interest Rate (%)	–	–	1.72%	1.73%	1.57%	
		EUR						
		Notional	10	–	–	187	27	**224**
		Average Interest Rate (%)	6.00%	–	–	0.54%	0.58%	
		USD						
		Notional	–	–	6	400	74	**480**
		Average Interest Rate (%)	–	–	2.68%	1.91%	2.22%	
Fair Value Hedge	**FX & IR risk**	**Cross currency interest rate swap**						
		EUR/HUF						
		Notional	–	1	(2)	15	16	**30**
		Average Interest Rate (%)	(1.67%)	(1.58%)	(1.70%)	(1.61%)	(1.63%)	
		Average FX Rate	306.30	310.86	304.09	309.85	308.81	
Fair Value Hedge	**FX risk**	**Cross currency interest rate swap**						
		RON/HUF						
		Notional	–	–	–	1,200	–	**1,200**
		Average FX Rate	–	–	–	68.66	–	
		RUB/HUF						
		Notional	–	–	–	7,000	–	**7,000**
		Average FX Rate	–	–	–	4.23	–	
Fair Value Hedge	**Other**	**Interest rate swap**						
		HUF						
		Notional	–	2,879	1,776	30,479	837	**35,971**
Cash-flow Hedge	**Interest rate risk**	**Interest rate swap**						
		HUF						
		Notional	–	–	–	12,194	28,027	**40,221**
		Average FX Rate	–	–	–	1.77	2.46	

Derivative financial instruments designated as hedge accounting as follows:

Type of hedge	Type of instrument	Type of risk	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument for the year ended 2018		Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge ineffectiveness for the year ended 2018
				Assets	Liabilities		
Fair value hedge							
	Interest rate swap	Interest rate risk	661,704	2,649	(6,051)	Derivative financial instruments designated as hedge accounting	1,551
	Cross-currency swap	FX & IR risk	8,982	–	(181)	Derivative financial instruments designated as hedge accounting	(149)
	Cross-currency swap	FX risk	115,060	4,003	(170)	Derivative financial instruments designated as hedge accounting	(438)
	Interest rate swap	Other	38,834	1,818	–	Derivative financial instruments designated as hedge accounting	(3)
Cash-flow hedge							
	Interest rate swap	Interest rate risk	133,379	3,751	(523)	Derivative financial instruments designated as hedge accounting	(118)

Type of hedge	Type of risk	Carrying amount of the hedged item for the year ended 2018		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item for the year ended 2018		Line item in the statement of financial position in which the hedged item is included
		Assets	Liabilities	Assets	Liabilities	
Fair value hedges						
Loans	Interest rate risk	25,958	–	(162)	–	Loans
Government bonds	Interest rate risk	1,236,599	–	(2,298)	–	Securities at amortised cost
Government bonds	Interest rate risk	101,707	–	(280)	–	Securities at fair value through other comprehensive income
Government bonds	Interest rate risk	1,891	–	(1,563)	–	Financial assets at fair value through profit or loss
Other securities	Interest rate risk	185,576	–	(68)	–	Securities at fair value through other comprehensive income
Loans	FX & IR risk	9,282	–	7	–	Loans
Loans	FX risk	103,905	–	(590)	–	Loans
Other securities	Other risk	–	(35,716)	–	5,978	Liabilities from issued securities
Fair value hedges total		**1,664,918**	**(35,716)**	**(4,954)**	**5,978**	
Cash-flow hedges						
Loans	Interest rate risk	40,204	–	1,100	–	Loans

Type of instrument	Type of risk	Change in the value of the hedging instrument recognised in cash-flow hedge reserve	Hedge effectiveness recognised in profit or loss	Line item in profit or loss that includes hedge ineffectiveness
Interest rate swap	Interest rate risk	(949)	949	Interest Income from Placements with other banks, net of allowance for placement losses

d) Fair value classes

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Fair value measurements – in relation with instruments measured not at fair value – are categorized in level 2;

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

As at 31 December 2018:

	Total	Level 1	Level 2	Level 3
Loans mandatorily measured at fair value through profit or loss	32,745	–	–	32,745
Financial assets at fair value through profit or loss	154,922	41,023	113,899	–
from this: securities held for trading	22,202	20,260	1,942	–
from this: positive fair value of derivative financial instruments classified as held for trading	112,062	105	111,957	–
from this: securities mandatorily measured at fair value through profit or loss	20,658	20,658	–	–
Securities at fair value through other comprehensive income	1,434,891	1,028,768	402,977	3,146
Positive fair value of derivative financial instruments designated as fair value hedge	12,221	–	12,221	–
Financial assets measured at fair value total	**1,634,779**	**1,069,791**	**529,097**	**35,891**
Financial liabilities at fair value through profit or loss	32,231	–	–	32,231
Negative fair value of derivative financial instruments classified as held for trading	82,838	965	81,873	–
Negative fair value of derivative financial instruments designated as fair value hedge				
Negative fair value of derivative financial instruments designated as cash-flow hedge	6,925	–	6,925	–
Financial liabilities measured at fair value total	**121,994**	**965**	**88,798**	**32,231**

As at 31 December 2017:

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

Valuation techniques and sensitivity analysis on Level 3 instruments

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

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

Unobservable inputs used in measuring fair value:

Type of financial instrument	Valuation technique	Significant unobservable input	Range of estimates for unobservable input
VISA C shares	Market approach combined with expert judgement	discount applied due to illiquidity and litigation	+/–12%
Loans mandatory measured at fair value through profit and loss	Discounted cash-flow modell	Probability of default	+/–20%

The effect of unobservable inputs on fair value measurement

Although the Bank believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing the assumptions used to reasonably possible alternative assumptions would have the following effects.

As at 31 December 2018:

	Fair values		Effect on profit and loss	
	Favourable	Unfavourable	Favourable	Unfavourable
VISA C shares	1,875	1,425	225	(225)
Loans mandatory measured at fair value through profit and loss	33,094	32,396	349	(349)
Total	**34,969**	**33,821**	**574**	**(574)**

As at 31 December 2017:

	Fair values		Effect on profit and loss	
	Favourable	Unfavourable	Favourable	Unfavourable
VISA C shares	1,521	1,141	190	(190)
Total	**1,521**	**1,141**	**190**	**(190)**

The favourable and unfavourable effects of using reasonably possible alternative assumptions for the valuation of Visa C shares have been calculated by modifying the discount rate used for the valuation by +/–12% as being the best estimates of the management as at 31 December 2018 and 2017 respectively.

In the case of loans mandatory measured at fair value through profit and loss the Bank calculated the favourable and unfavourable effects of using reasonably possible alternative assumptions by modifying the rates of probability of default by +/–20% as the most significant unobservable input.

NOTE 38: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2018

1) **Capital increase at OTP banka Srbija**

2) **Capital increase at OTP banka Slovensko**

3) **Capital increase at OTP Bank Romania**

4) **Capital increase at Bank Center No. 1.**

5) **Acquisition at Albania**

6) **Acquisition at Bulgaria**

7) **Acquisition at Serbia**

8) **Capital increase at DSK Bank**

See details about the events in Note 9.

NOTE 39: SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

In 2018 OTP Bank signed an acquisition agreement on purchasing 100% shareholding of Societe Generale Banka Srbija a.d. ("SGS"), the Serbian subsidiary of Societe Generale Group and all subsidiaries held by SGS. With a market share of 8.4% based on total assets, SGS is the 4th largest bank on the Serbian banking market and as a universal bank it has been active in the retail and corporate segment as well. The Bank is expected to have the control over SGS in 2019.

In 2018 OTP Bank signed an acquisition agreement on purchasing 87.85% shareholding of Mobiasbanca – Groupe Societe Generale S.A. ("SGMB"), the Moldovan subsidiary of Societe Generale Group. With a market share of 13.3%, SGMB is the 4th largest bank on the Moldovan banking market and as a universal bank it has been active in the retail and corporate segment as well. The financial closure of the transaction is expected in the coming months subject to obtaining all the necessary regulatory approvals. The Bank is expected to have the control SGMB in 2019.

NOTE 40: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE BANK'S FINANCIALS

The **eurozone's** annual growth rate slowed to 1.8% in 2018 according to preliminary data, down from a sky-rocketing 2.5% year-on-year performance in 2017, and the storm clouds never stop gathering – in the form of intensifying trade war, the politics of Italy's new government, the faltering Brexit talks, the new emission rules in the auto industry, and Turkey's problems. At the beginning of 2018, the modest growth figures could be attributed to one-off or country-specific factors (e.g. the several-week-long railway strikes in France), it was not before the second half of the year when it became clear that the performance in 2018 would be nowhere near the previous year's one, and the annualized quarterly growth rate slowed to less than 1% by the second half of the year. Based on the currently available data, the moderate performance owes a lot to the core countries, particularly Germany and Italy. Dancing on thin ice, Italy became less worrisome by the end of the year, but its new government still plans a string of fiscal loosening measures, and the resulting increase in public debt is not in sync with the EU's requirements, moreover, investors' confidence in financing the country's debt has wobbled. Although the EU's decision-makers approved the Brexit agreement drafted in November, the House of Commons of the UK Parliament rejected the bill several times, even though EU leaders repeatedly ruled out re-opening talks into the deal. At the end of 2018, the ECB phased out its asset purchase programme and thus launched the second monetary tightening – but seeing the eurozone's growth data, interest rate hikes –previously supposed to take place in the second half of 2019– now seem unlikely, and the ECB will be cautious about further tightening monetary conditions.

The growth rate in the **United States** may have been around 3% in 2018, but it is likely to slow in the near future. This is partly because the effect of the tax cut programme, which used to fuel growth, is now fading; besides, the trade war left its mark on the economy's performance, and its resolution is making no progress, despite the on-going negotiations. Thus the USA's import tariffs on Chinese goods worth USD 100 billion remain in place. Following the autumn elections, Republicans retained majority in Senate, but Democrats gained the upper hand in the House of Representatives. It did not take long for the two parties to clash, over the funding of the wall planned on the Mexican border, ultimately resulting in more-than-one-month-long government shutdown.

Meanwhile the Fed raised the benchmark rate four times in 2018 (to 2.25–2.5), but the post-meeting statements' language became increasingly cautious about the future schedule of tightening. In January 2019, the communication shifted markedly, by pointing out that in the light of global economic and financial events, central bankers will be flexible about unwinding the Fed's balance sheet and will be cautious in continuing the tightening cycle – this makes rate hikes in 2019 unlikely, and the reducing the balance sheet will be reduced slower than earlier planned.

Despite the fast deterioration in the external environment, **Hungary's** full-year 2018 GDP growth rate surpassed expectations and our own forecast. The 4.8% growth rate marks the second fastest one in the history of Hungary (surpassed only in 2004) and in comparison to its regional peers (preceded by Poland only). Just like in 2017, this robust growth was largely driven by domestic demand – consumption expanded by 5%, and investment surged 17%, equally benefiting from EU-co-financed public investment projects and capacity-boosting private investment.

Following the peak in 2016, Hungary's current account surplus shrank further. Based on the latest figures, the surplus may have decreased to 1.3% of GDP, down from 6.3% in 2016 and 3.2% in 2017. Reasons include higher crude prices, the deterioration in Europe's business cycle, the subsiding exports owing to the new WLTP measure, the rising import need of the strong domestic demand, and foreign-owned companies' higher profits also worsen the balance of income. Nevertheless, Hungary's net financing capacity still runs surplus, its net FDI inflow is positive, and net annual debt repayment reaches 3–4% of GDP. External debt is still shrinking, but it is average-sized in regional comparison.

Regarding Hungary's labour market, the trend that began in 2017 continued last year. Employment grew further and the unemployment rate fell to 3.7%. The shortage of labour causes capacity constraints in some segments of the labour market. Gross wages grew by more than 10% year-on-year in the first 11 months of the year, but the accelerating inflation reduced real wages in the second half of the year, which left its mark on retail sales' growth pace as well.

By Q3 2018, Hungary's accrual-based four-quarter government deficit fell to 1.9% of GDP, thus the 2018 balance may have been around

2.2% of GDP, less than the official target of 2.4%. The central budget received more than HUF 1,000 billion EU funding in the fourth quarter, thus public debt may have shrunk to 71% of GDP by the end of the year.

Consumer prices grew by an average of 2.8% in 2018, up from 2.5% a year earlier. Inflation was a result of opposing effects. On the one hand, the combination of robust domestic demand, the wage growth caused by the tight labour market, an increase in seasonal food prices, and a pick-up in oil prices in the second half of the year have temporarily sent the consumer price index above 3%, but then oil prices declined, second-hand-car prices fell owing to the diesel emission scandal, and the base effects in some food products all dragged inflation down.

In line with the world's leading central banks, the tightening cycle began in some countries in Central and Eastern Europe (Romania and the Czech Republic). In the second half of 2018, the MNB's communication included multiple changes that pointed towards tightening the extremely loose monetary conditions – but no measures followed them. The MNB's September meeting brought some change, when the central bank announced that, by transforming its monetary policy tools, the MNB is prepared for the gradual and cautious normalization of monetary policy: it abandoned 3M deposit facility and the required reserve became the benchmark tool, ended the MIRS (monetary policy interest rates swap) and the mortgage bond purchase program, but the FX-swap volume was not fully wound down. As a new tool, the Funding for Growth fixed scheme was introduced, with an aim to increase the share of fixed-interest rate loans within the SME sector. As the global environment is likely to remain volatile, we expect the CEE region's currency rates to see-saw, but the depreciation pressure on the forint is likely to ease. This January the MNB gave another strong signal, which points toward the beginning of the tightening, but the unpredictability of the external environment may provide reason for putting off normalization. The MNB's most recent forecast is based on 3.5% economic growth and 2.9% consumer price index for 2019.

From 2017 the base of the **Hungarian banking tax** is the adjusted balance sheet total at the actual calendar year minus two years (i.e. for the 2018 banking tax calculation the end-2016 adjusted total assets must be used). Effective from 2017 the applicable upper tax rate has been moderated to 0.21%. The total annual amount of the banking tax payable in 2018 was already booked in one sum in 1Q 2018. From 2018 the bank tax rate further moderated, by 1 bp to 0.20%.

In 2018 more than 12,000 applications for the **Housing Subsidy Scheme for Families** (CSOK) subsidy were registered at OTP Bank with a value of over HUF 40 billion.

In accordance with a legislative change effective from 17 October 2018 the state subsidy for new building society contracts was phased out (the subsidy in the case of already existing contracts won't change). Simultaneously, the Government suggested that the potential savings in the central budget would be re-allocated for extending the Housing Subsidy for Families scheme (CSOK). As a result, on 25 October the Government decided on extending the CSOK, in particular families with two children will be eligible for a preferential housing loan in the amount of up to HUF 10 million (with fix 3% interest rate), whereas the original amount of HUF 10 million preferential loan for families with three children will be increased to HUF 15 million. The new conditions came into force from 1 December 2018.

With respect to **mortgage lending,** one of the most important and spectacular development was the steady and unambiguous rise in the popularity of fixed rate mortgages. At OTP Bank the proportion of fixed rate housing loans (with an interest rate fixation period of at least 5 years) within non-subsidized housing loan applications reached 97% in 4Q 2018, up from around 50% in 2017 as a whole. It was also positive that in the last several months the applications for mortgages with a repricing period of 10 years or more gained further ground: in 4Q 2018 the aggregated volume of applications for loans with fixation period of 10 and 20 years was close to 80% within total fixed rate credits. The above developments were stimulated by the deliberate policies taken by the National Bank of Hungary, through the introduction of the certified consumer-friendly housing loans and the amendments to the PTI rules effective from 1 October 2018. In 4Q 2018 the share of certified customer-friendly mortgages within new fixed rate market-based housing loan applications exceeded 70%.

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

According to the decision by the Monetary Council (MC) of the National Bank of Hungary on 21 November 2017 the MC introduced an unconditional interest rate swap (IRS) facility, with 5 and 10 years maturity. Counterparty banks could access the IRS facility on regular tenders from the beginning of January 2018. In line with the fine-tuning of the unconventional policy instruments affecting long-term yields, the on 18 September 2018 MC made a decision to phase out the monetary policy IRS facilities by the end of 2018. The Council set the annual maximum stock of **monetary policy IRS (MIRS)** for 2018 at HUF 1,100 billion.

Until November 2018 – in coordination with the auditor – the initial positive net present value (NPV) gained on MIRS deals was accrued for the whole maturity of MIRS transactions within the net interest income. In December 2018 NBH published guidelines on its website, according to which those swap facilities were unconditional, therefore in NBH's opinion there was no such binding criteria within the conditions that would require the accrual of NPVs.

Taking into consideration the NBH's guidelines, OTP Bank – with the consent of the auditor – decided to book the total initial positive NPVs in one lump sum within its P&L. As a result, in the adjusted P&L structure the total HUF 20.7 billion before tax gain (HUF 18.8 billion after tax) realized in 2018 as a whole was presented in 4Q 2018 within adjustment items on the Initial NPV gain on the monetary policy interest rate swap (MIRS) deals line.