OTP BANK PLC.

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

FOR THE YEAR ENDED
31 DECEMBER 2018

Deloitte.

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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.

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

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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

OTP BANK PLC.
CONSOLIDATED FINANCIAL STATEMENTS

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OTP BANK PLC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018
(in HUF mn)

	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

OTP BANK Nyrt. elnök-vezérigazgató

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Dr. Sándor Csányi
Chairman and Chief Executive Officer

OTP BANK PLC.
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2018
(in HUF mn)

	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 LOANS 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**

OTP BANK PLC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018
(in HUF mn)

	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

OTP BANK PLC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018 (in HUF mn)

	Note	Share capital	Capital reserve	Share-based payment reserve	Retained earnings and other reserves[1]	Option reserve	Treasury shares	Total attributable to shareholders'	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

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

OTP BANK PLC.
CONSOLIDATED STATEMENT OF CASH-FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018
(in HUF mn)

	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**

OTP BANK PLC.
CONSOLIDATED STATEMENT OF CASH-FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018
(in HUF mn)
[continued]

	Note	2018	2017
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**

NOTE 1: ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS

1.1. General information

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

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

In 1995, the shares of the Bank were 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.

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

1.2. Basis of Accounting [continued]

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

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

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

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.

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

1.2. Basis of Accounting [continued]

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

Implementation of IFRS 16

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.

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

1.2. Basis of Accounting [continued]

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

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 IFRS16.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%.

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

1.2. Basis of Accounting [continued]

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

Description of adjustments due to implementation of IFRS 16 [continued]

a) Recognition of lease liabilities [continued]

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 %.

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

1.2. Basis of Accounting [continued]

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

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 as at the date of the Consolidated Financial Statements.

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

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

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.2. Foreign currency translation [continued]

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

2.3. Principles of consolidation

Included in these Consolidated Financial Statements are the accounts of those subsidiaries in which the Bank exercises control. The list of the major fully consolidated subsidiaries, the percentage of issued capital owned by the Bank and the description of their activities is provided in Note 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.6. Financial assets at fair value through profit or loss

2.6.1. Securities held for trading

Investments in securities 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 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.

[1] First In First Out

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

2.6.2. Derivative financial instruments [continued]

Cross-currency interest rate swaps

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

Equity and commodity swaps

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

Forward rate agreements (FRA)

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

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

Foreign exchange options

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.8. Offsetting

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

2.9. Embedded derivatives

Sometimes, a derivative may be a component of a combined 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[1] 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.

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.

[1] First In First Out

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.11. Loans, placements with other banks and loss allowance for loans and placements [continued]

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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.11. Loans, placements with other banks and loss allowance for loans and placements [continued]

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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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.

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

2.16. Leases

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

The Group as a lessor

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

The Group as a lessee

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

Payments made under operating leases are charged to the Consolidated Statement of Profit or Loss on a straight-line basis over the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.
Applying rules for lessee 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.20. Fees and Commissions

Fees and commissions are recognized using the effective interest method referring to 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.25. Consolidated Statement of Cash-flows

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.27. Comparative figures [continued]

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 December 2017	Reclassification	Remeasurement due to loss allowance Stage 1	Stage 2	Stage 3[1]	Opening balance according to IFRS 9 as at 1 January 2018
Placements with other banks	**Placements with other banks**	**462,180**	**-**	**(269)**	**-**	**-**	**461,911**
Held for trading securities	Held for trading securities at fair value through profit or loss	259,263	(3,579)	-	-	-	255,684
	Securities mandatorily at fair value through profit or loss	-	29,206	-	-	-	29,206
Available for sale securities	Securities at fair value through other comprehensive income	2,174,718	(34,399)	(2,885)	-	-	2,137,434
Securities held-to-maturity	Securities at amortized cost	1,310,331	8,933	(2,256)	-	(5)	1,317,003
Securities total	**Securities total**	**3,744,312**	**161**	**(5,141)**	**-**	**(5)**	**3,739,327**
Loans at amortized cost	Loans at amortized cost	6,987,834	(21,844)	(9,436)	(20,265)	(19,674)	6,916,615
	Loans at fair value	-	23,251	-	-	-	23,251
Loans total	**Loans total**	**6,987,834**	**1,407**	**(9,436)**	**(20,265)**	**(19,674)**	**6,939,866**
Amounts due to banks	Amounts due to banks	472,068	(20,011)	-	-	-	452,057
	Financial liabilities at fair value through profit or loss	-	21,476	-	-	-	21,476
	Liabilities total	**472,068**	**1,465**	**-**	**-**	**-**	**473,533**
Provision for loan commitmer and financial guarantees	Provision for loan commitments and financial guarantees	**15,356**	**-**	**1,816**	**1,181**	**1,967**	**20,320**

IFRS 15

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

[1] Stage 3 includes POCI category too.

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 regularly reviewed and each model is calibrated for the most recent available market data. While the models are built only on available data, their use is subject to certain assumptions and estimates (e.g. correlations, volatilities, etc.). Changes in the model assumptions may affect the reported fair value of the relevant financial instruments.
IFRS 13 Fair Value Measurement seeks to increase consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. The hierarchy categorises the inputs used in valuation techniques into three levels. The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

3.3. Provisions

Provision is recognized and measured for commitments to extend credit and for warranties arising from banking activities based on IFRS 9 Financial Instruments. Provision for these instruments is recognised based on the credit conversion factor, which shows the proportion of the undrawn credit line that will probably be drawn.
Other provisions are recognized and measured based on IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Group is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Group assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for. (See Note 18.)
Other provision for off-balance sheet items includes provision for litigation, provision for retirement and expected liabilities and provision for confirmed letter of credit.
A provision is recognized by the Group when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

3.4. Impairment on goodwill

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

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

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[1]	**(727,293)**	**(397,356)**
Cash and cash equivalents	**819,979**	**800,689**

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

NOTE 5: PLACEMENTS WITH OTHER BANKS, NET OF 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%

	2018	2017
Average interest rates on placements with other banks	1.62%	0.98%

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

	2018	2017
Securities held for trading		
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[1] 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%**

[1] CCIRS: Cross Currency Interest Rate Swaps (See Note 2.6.2.)

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

	2018	2017
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%

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**

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

	2018	2017
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**

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%

	2018	2017
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%

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

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%

	2018	2017
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%

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

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

	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[1]	(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**

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**

[1] See details in Note 2.11.

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

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**

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

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%

	2018	2017
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

Cost	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Total
Balance as at 1 January	**302,057**	**226,513**	**174,585**	**20,033**	**723,188**
Additions	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	9	4	37	1	51
Balance as at 31 December	**323,269**	**239,639**	**195,040**	**22,881**	**780,829**

Depreciation and Amortization	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Total
Balance as at 1 January	**125,988**	**58,146**	**125,664**	**-**	**309,798**
Charge for the period (without goodwill impairment)	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**
Carying 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:

Intangible assets	Self-developed	Other	Total
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**

	Goodwill
Impairment as at 1 January	**513**
Additions	5,962
Foreign currency translation difference	-
Disposals	(513)
Balance as at 31 December	**5,962**

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

For the year ended 31 December 2018 [continued]

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

Carrying value	Goodwill
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[1]	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 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.

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

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

For the year ended 31 December 2018 [continued]

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

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

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

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

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

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

	Goodwill
Gross balance as at 1 January	**104,282**
Additions	-
Foreign currency translation difference	(2,793)
Disposals	-
Balance as at 31 December	**101,489**

	Goodwill
Impairment as at 1 January	**-**
Additions	504
Foreign currency translation difference	9
Disposals	-
Balance as at 31 December	**513**

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

For the year ended 31 December 2017 [continued]

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

Carrying value	Goodwill
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[1]	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:

Gross values	2018	2017
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**

The applied depreciation and amortization keys were the following:

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

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

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

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

Depreciation and amortization	**2018**	**2017**
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:

Impairment	**2018**	**2017**
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	**2018**	**2017**
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	**2018**	**2017**
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[1] (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[2]	(27,603)	(28,595)
	237,932	**211,963**
Fair value of derivative financial assets designated as hedge accounting relationhip	15,201	10,277
Deferred tax assets[3]	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[4] designated as cash-flow hedge	1,837	-
Total	**15,201**	**10,277**

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

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

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**

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**	**-**

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

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%

	2018	2017
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%

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

	2018	2017
Average interest rates on deposits from customers denominated in HUF	0.11%	0.18%
Average interest rates on deposits from customers denominated in foreign currency	0.75%	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%

	2018	2017
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%

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

Issued securities denominated in HUF as at 31 December 2018 (in HUF mn)

	Name	Date of issue	Maturity	Nominal value (in HUF mn)	Interest conditions (actual interest rate in % p.a.)		Hedged
1	OTP 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	
	Subtotal			**74,071**			

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

Issued securities denominated in HUF as at 31 December 2018 (in HUF mn) [continued]

	Name	Date of issue	Maturity	Nominal value (in HUF mn)	Interest conditions (actual interest rate in % p.a.)		Hedged
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/C	10/10/2018	24/10/2024	91,000	2.50	fix	
50	Other			226			
	Subtotal			**336,044**			
	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 2018 (in HUF mn)

	Name	Date of issue	Maturity	Type of FX	Nominal value		Interest conditions (actual interest rate in % p.a.)		Hedged
					(FX mn)	(HUF mn)			
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[1]					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**			

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

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

Hedge accounting

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

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

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

On 13 July 2017 the Bank initiated term note program in the value of HUF 200 billion with the intention of issuing registered dematerialized bonds in public. The NBH approved on 8 August 2017 the prospectus of Term Note Program and the disclosure as at 9 August 2017. The prospectus is valid for 12 months following the disclosure.
The Issuer can initiate to introduce the bonds issued under the program to the Hungarian, Slovakian, Romanian, Bulgarian and Croatian Stock Exchange without any obligations.

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

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

NOTE 17: DERIVATIVE FINANCIAL LIABILITIES 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[1] (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[2]	6,865	9,271
Subtotal	**14,272**	**26,470**
Total	**513,129**	**448,412**

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

[2] See Note 27.

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

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

	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	**2018**	**2017**
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%

	2018	2017
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 December 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[1] (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.

	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

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

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

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

Change in number of shares:

	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[1]	**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**

Fee type	Nature and timing of obligation settlement, and the significant payment terms	Revenue recognition under IFRS 15
Deposit and account maintenance fees and commissions and fees related to cash withdrawal	The Group provides a number of account management services for both retail and corporate customers in which they charge a fee. Fees related to these services can be typically account transaction fees (money transfer fees, direct debit fees, money standing order fees, etc.), internet banking fees, 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 Group basically charges the fees when the services are used by the customer. The fees can be fixed fees or they can be set in %. The rates are reviewed by the Group 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 place or charged monthly at the end of the month.

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

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

Fee type	Nature and timing of obligation settlement, and the significant payment terms	Revenue recognition under IFRS 15
Fees and commission related to the issued bank cards	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 %.	

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

Fee type	Nature and timing of obligation settlement, and the significant payment terms	Revenue recognition under IFRS 15
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)

Other operating income	2018	2017
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**

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

Other operating expenses	2018	2017
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]	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	2018	2017
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[2]	**57,437**	**49,492**

	2018	2017
Other administrative expenses		
Taxes, other than income tax [3]	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**

[1] See details in Note 9.

[2] See details in Note 11.

[3] Special tax of financial institutions was paid by the Group in the amount of HUF 11,279 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.

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

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**

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

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

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

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.

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan types [continued]

Classification into risk classes

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

- stage 1 – performing 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.

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan types [continued]

Classification into risk classes [continued]

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

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

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

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

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

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

Defining the expected credit loss on individual and collective basis

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

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan types [continued]

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

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 macroeconomic outlook.

At least two scenarios must be used for the estimation of the expected cash flow. It should be at least one scenario in which the entity anticipates that 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.

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan types [continued]

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

On collective basis [continued]

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.

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan types [continued]

Gross carrying amount and accumulated 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	Gross carrying amount / Notional value				Accumulated loss allowance / Provision			
		Stage 1	Stage 2	Stage 3[1]	Total	Stage 1	Stage 2	Stage 3[1]	Total
Placements with other banks	**420,606**	419,468	1,606	29	**421,103**	463	12	22	**497**
Mortgage loans	**2,399,184**	2,121,746	184,617	275,484	**2,581,847**	3,415	8,478	170,770	**182,663**
Loans to medium and large corporates	**2,651,852**	2,432,280	182,051	194,608	**2,808,939**	23,083	16,719	117,285	**157,087**
Consumer loans	**1,833,060**	1,744,664	127,858	235,098	**2,107,620**	56,524	25,503	192,533	**274,560**
Loans to micro and small enterprises	**582,012**	494,635	78,411	63,866	**636,912**	5,379	7,152	42,369	**54,900**
Car-finance loans	**296,684**	277,750	17,122	16,108	**310,980**	1,344	818	12,134	**14,296**
Municipal loans	**269,276**	269,034	1,655	445	**271,134**	1,634	35	189	**1,858**
Loans at amortized cost	**8,032,068**	7,340,109	591,714	785,609	**8,717,432**	91,379	58,705	535,280	**685,364**
Interest bearing securities at fair value through other comprehensive income[2]	**1,853,186**	1,853,186	-	-	**1,853,186**	3,098	-	-	**3,098**
Securities at amortized cost	**1,740,520**	1,742,754	-	705	**1,743,459**	2,234	-	705	**2,939**
Financial assets total	**12,046,380**	**11,355,517**	**593,320**	**786,343**	**12,735,180**	**97,174**	**58,717**	**536,007**	**691,898**
Loan commitments given	2,008,387	1,988,798	33,881	3,551	**2,026,230**	14,941	2,082	820	**17,843**
Financial guarantees given	958,859	939,077	22,842	7,150	**969,069**	6,516	739	2,955	**10,210**
Financial liabilities total	**2,967,246**	**2,927,875**	**56,723**	**10,701**	**2,995,299**	**21,457**	**2,821**	**3,775**	**28,053**

[1] Stage 3 includes POCI category too.
[2] Interest bearing securities at fair value through other comprehensive income is recognized in the Consolidated statement of financial position as at fair value (see in Note 7). Loss allowances for securities at fair value through other comprehensive income is recognized in the Other comprehensive income which is included in the accumulated loss allowance of this table.

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan types [continued]

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	Gross carrying amount / Notional value				Accumulated loss allowance / Provision			
		Stage 1	Stage 2	Stage 3[1]	Total	Stage 1	Stage 2	Stage 3[1]	Total
Placements with other banks as at 31 December 2017	**462,180**	462,207	17	24	**462,248**	43	1	24	**68**
Transition effect due to IFRS9 implementation	**-269**	-	-	-	-	269	-	-	**269**
Placements with other banks as at 1 January 2018	**461,911**	**462,207**	**17**	**24**	**462,248**	**312**	**1**	**24**	**337**
Mortgage loans	**2,259,402**	1,904,064	221,075	326,597	**2,451,736**	7,920	6,385	178,029	**192,334**
Loans to medium and large corporates	**2,311,454**	2,138,009	64,855	318,059	**2,520,923**	21,780	1,860	185,829	**209,469**
Consumer loans	**1,638,523**	1,608,317	45,745	244,477	**1,898,539**	41,766	10,344	207,906	**260,016**
Loans to micro and small enterprises	**349,971**	313,599	16,576	70,769	**400,944**	2,261	539	48,173	**50,973**
Car-finance loans	**222,095**	216,584	4,005	25,247	**245,836**	1,737	391	21,613	**23,741**
Municipal loans	**206,389**	196,608	5,970	6,074	**208,652**	923	25	1,315	**2,263**
Loans at amortized cost as at 31 December 2017	**6,987,834**	**6,377,181**	**358,226**	**991,223**	**7,726,630**	**76,387**	**19,544**	**642,865**	**738,796**
Transition effect due to IFRS9 implementation	**(71,219)**	(20,605)	81	(9,403)	**29,927**	10,361	20,619	10,312	**41,292**
Loans at amortized cost as at 1 January 2018	**6,916,615**	**6,356,576**	**358,307**	**981,820**	**7,696,703**	**86,748**	**40,163**	**653,177**	**780,088**
Interest bearing securities at fair value through other comprehensive income as at 31 December 2017	**2,124,565**	2,124,778	-	157	**2,124,935**	213	-	157	**370**
Transition effect due to IFRS9 implementation	**(10,249)**	(10,092)	-	(157)	**(10,249)**	3,042	-	(157)	**2,885**
Interest bearing securities at fair value through other comprehensive income as at 1 January 2018[2]	**2,114,686**	**2,114,686**	**-**	**-**	**2,114,686**	**3,255**	**-**	**-**	**3,255**
Securities at amortized cost as at 31 December 2017	**1,310,331**	1,304,340	6,022	685	**1,311,047**	-	80	636	**716**
Transition effect due to IFRS9 implementation	**6,672**	8,686	-	-	**8,686**	2,009	-	5	**2,014**
Securities at amortized cost as at 1 January 2018	**1,317,003**	**1,313,026**	**6,022**	**685**	**1,319,733**	**2,009**	**80**	**641**	**2,730**
Financial assets total	**10,811,670**	**10,246,495**	**364,346**	**988,796**	**11,599,637**	**92,324**	**40,244**	**658,654**	**791,222**
Loan commitments	1,236,219	1,231,269	12,001	2,284	**1,245,554**	9,093	111	131	**9,335**
Financial guarantees	821,435	816,973	3,295	7,188	**827,456**	3,289	397	2,335	**6,021**
Financial liabilities total as at 31 December 2017	**2,057,654**	**2,048,242**	**15,296**	**9,472**	**2,073,010**	**12,382**	**508**	**2,466**	**15,356**
Transition effect due to IFRS9 implementation	**(4,964)**	(3,641)	2,099	1,542	**-**	1,816	1,181	1,967	4,964
Financial liabilities total as at 1 January 2018	**2,052,690**	**2,044,601**	**17,395**	**11,014**	**2,073,010**	**14,198**	**1,689**	**4,433**	**20,320**

[1] Stage 3 includes POCI category too.
[2] Interest bearing securities at fair value through other comprehensive income is recognized in the Consolidated statement of financial position as at fair value (see in Note 7). Loss allowances for securities at fair value through other comprehensive income is recognized in the Other comprehensive income which is included in the accumulated loss allowance of this table.

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan types [continued]

Movement of 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	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
Stage 1	**92,280**	**72,512**	**(17,906)**	**(196,638)**	**143,939**	**(2,247)**	**(45)**	**5,279**	**97,174**
Placements with other banks	312	1,204	(9)	-	(1,037)	-	-	(7)	463
Loans at amortized cost	86,748	69,669	(17,670)	(196,638)	146,458	(2,247)	(45)	5,104	91,379
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost	5,220	1,639	(227)	-	(1,482)	-	-	182	5,332
Stage 2	**40,244**	**7,773**	**(3,602)**	**78,714**	**(54,101)**	**(940)**	**(132)**	**(9,239)**	**58,717**
Placements with other banks	1	-	-	-	13	(1)	-	(1)	12
Loans at amortized cost	40,163	7,773	(3,602)	78,714	(54,034)	(939)	(132)	(9,238)	58,705
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost	80	-	-	-	(80)	-	-	-	-
Stage 3[1]	**653,886**	**46,631**	**(72,208)**	**117,924**	**(185,877)**	**6,507**	**(51,530)**	**20,674**	**536,007**
Placements with other banks	24	-	(2)	-	-	-	-	-	22
Loans at amortized cost	653,177	45,926	(72,206)	117,924	(184,904)	6,507	(51,530)	20,386	535,280
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost	685	705	-	-	(973)	-	-	288	705
Loss allowance on financial assets total	**786,410**	**126,916**	**-93,716**	**-**	**(96,039)**	**3,320**	**(51,707)**	**16,714**	**691,898**
Loan commitments and financial guarantees given_ stage 1	14,198	4,908	(2,018)	913	1,846	171	-	1,439	21,457
Loan commitments and financial guarantees given_ stage 2	1,689	1,447	(33)	(1,030)	813	(4)	-	(61)	2,821
Loan commitments and financial guarantees given_ stage 3	4,433	2,631	(388)	117	(2,932)	(121)	-	35	3,775
Financial liabilities total	**20,320**	**8,986**	**(2,439)**	**-**	**(273)**	**46**	**-**	**1,413**	**28,053**

[1] Stage 3 includes POCI category too.

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan types [continued]

Loan portfolio by countries

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

	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
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[1]	3,002	319	54,849	56
Total[2]	**9,138,535**	**685,861**	**8,188,720**	**738,863**

[1] 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.
[2] It includes the accrued interest receivable too.

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan type [continued]

Loan portfolio by countries [continued]

Country	2018 Loans at fair value
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.

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

28.1. Credit risk [continued]

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.

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

28.1. Credit risk [continued]

28.1.4. Financial instruments by rating categories[1]

Securities held for trading as at 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**

[1] Moody's ratings

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

28.1. Credit risk [continued]

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

Securities at 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**

[1] Moody's ratings

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

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

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

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

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

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

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

Due to the balance sheet adjustment process (deleveraging) experienced in the last few years, the liquidity reserves of the Group increased significantly while the liquidity risk exposure has decreased considerably. Currently the (over)coverage of potential liquidity risk exposure by high quality liquid assets is very high. In the 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.

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

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

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[1]	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[2]	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**

[1] Without derivative financial instruments., it includes trade receivables, prepayments and accrued income and receivables from investment services.
[2] Without derivative financial instruments, it includes account payables, deferrals, compulsion loans and liabilities from investments services.

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

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

As at 31 December 2017	**Within 3 months**	**Within one year and over 3 months**	**Within 5 years and over one year**	**Over 5 years**	**Without maturity**	**Total**
Cash, amounts due from banks and balances with the National Banks	1,198,257	22	-	-	293	1,198,572
Placements with other banks, net of 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[1]	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[2]	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 held 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**

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

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

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

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.

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

28.4. Interest rate risk management [continued]

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
ASSETS	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	
Cash, amounts due from banks and balances with the National Banks	**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**

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

28.4. Interest rate risk management [continued]

As at 31 December 2018 [continued]

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
LIABILITIES	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	
Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks	**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**

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

28.4. Interest rate risk management [continued]

As at 31 December 2017

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

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

28.4. Interest rate risk management [continued]

As at 31 December 2017 [continued]

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

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

28.5. Market risk

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

28.5.1. Market Risk sensitivity analysis

The VaR risk measure estimates the potential loss in pre-tax profit over a given holding period for a specified confidence level.

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

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

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

Historical VaR (99%, one-day) by risk type	**Average**	
	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.

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

28.5. Market risk [continued]

28.5.2. Foreign currency sensitivity analysis

The following table details the Group's sensitivity to an increase and decrease in the HUF exchange rate against the EUR and USD, over a 3 months period. Monte Carlo simulation is used when reporting foreign currency risk internally to key management personnel and represents Management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items as strategic open positions related to foreign activities.
The strategic open position related to the foreign operations was short and amounted to EUR 310 million (kept to hedge the currency risk of the expected FX-denominated net earnings of the main foreign subsidiaries) as at 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	
	2018	2017
	In HUF billion	In HUF billion
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.

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

28.5 Market risk [continued]

28.5.3. Interest rate sensitivity analysis [continued]

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

(1) HUF base rate stays unchanged and BUBOR decreases gradually to 0.0% (probable scenario)
(2) 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)

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

28.6. Capital management

Capital management

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

Capital adequacy

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

The Group has entirely complied with the regulatory capital requirements in 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.

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

28.6. Capital management [continued]

Capital adequacy [continued]

Calculation on IFRS basis	2018	2017
Core capital (Tier 1) = Common Equity Tier 1 (CET 1)	*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 Tier 1 (AT1)	-	-
Supplementary capital (Tier 2)	*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]	**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**
CET 1 ratio	13.6%	12.7%
Tier 1 ratio	13.6%	12.7%
Capital adequacy ratio	**15.3%**	**14.6%**

Basel III

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

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

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

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.)

NOTE 30: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn) [continued]

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[1]

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

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

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

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

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

[1] Until the end of 2014 Board of Directors

NOTE 31: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn) [continued]

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

Year	Share purchasing at a discounted price			
	Exercise price	Maximum earnings	Exercise price	Maximum earnings
	(HUF per share)			
	for the year 2013		for the year 2014	
2014	2,522	2,500	-	-
2015	2,522	3,000	3,930	2,500
2016	2,522	3,500	3,930	3,000
2017	2,522	3,500	3,930	3,000
2018	-	-	3,930	3,000

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

Year	Share purchasing at a discounted price		Price of remuneration exchanged to share	Share purchasing at a discounted price		Price of remuneration exchanged to share	Share purchasing at a discounted price		Price of remuneration exchanged to share
	Exercise price	Maximum earnings		Exercise price	Maximum earnings		Exercise price	Maximum earnings	
	(Ft/db)								
	for the year 2015			for the year 2016			for the year 2017		
2016	4,892	2,500	6,892	-	-	-	-	-	-
2017	4,892	3,000	6,892	7,200	2,500	9,200	-	-	-
2018	4,892	3,000	6,892	7,200	3,000	9,200	8,064	3,000	10,064
2019	4,892	3,000	6,892	7,200	3,500	9,200	8,064	3,500	10,064
2020	-	-	-	7,200	4,000	9,200	8,064	4,000	10,064
2021	-	-	-	-	-	-	8,064	4,000	10,064
2022	-	-	-	-	-	-	8,064	4,000	10,064

NOTE 31: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn) [continued]

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

	Approved pieces of shares	Exercised until 31 December 2018	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable as at 31 December 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 December 2018	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable as at 31 December 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 December 2018	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable as at 31 December 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

NOTE 31: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn) [continued]

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

	Approved pieces of shares	Exercised until 31 December 2018	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable as at 31 December 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 December 2018	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable as at 31 December 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**

	2018	**2017**
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**	**-**

NOTE 32: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]

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

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 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 and NBG Leasing d.o.o.	Splitska banka group
Cash amounts and due from banks	(25,942)	(16,896)
Placements with other banks, net of 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	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)**

NOTE 33: ACQUISITION (in HUF mn) [continued]

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

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

NOTE 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

NOTE 34: SIGNIFICANT SUBSIDIARIES AND ASSOCIATES (in HUF mn) [continued]

Significant subsidiaries [continued]

Name	Ownership (Direct and Indirect) 2018	2017	Activity
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[1]

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

As at 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

[1] Based on unaudited financial statements.

NOTE 36: CONCENTRATION OF ASSETS AND LIABILITIES

	2018	2017
In the percentage of the total assets		
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.

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**

	2018	2017
	Number of shares	
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[1]	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**

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

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)**

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.

NOTE 39: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn)

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[1]	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[2]	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[3]	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**

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

NOTE 39: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

b) Fair value of derivative instruments

The Group regularly enters into hedging transactions in order to decrease its financial risks. However some economically hedging transaction do not meet the criteria to account for hedge accounting, therefore these transactions were accounted as derivatives held for trading.
The assessment of the hedge effectiveness (both for fair value hedges and cash flow hedges) to determine the economic relationship between the hedged item and the hedging instrument is accomplished with prospective scenario analysis via different rate shift scenarios of the relevant risk factor(s) of the hedged risk component(s). The fair value change of the hedged item and the hedging instrument is compared in the different scenarios. Economic relationship is justified if the change of the fair value of the hedged item and the hedging instrument are in the opposite direction and the absolute changes are similar amounts. The hedge ratio is determined as the ratio of the notional of the hedged item and the notional of the hedging instrument. The sources of hedge ineffectiveness are the not hedged risk components (e.g. change of cross currency basis spreads in case of interest rate risk hedges), slight differences in maturity dates and interest payment dates in case of fair value hedges, and differences between the carrying amount of the hedged item and the carrying amount of the hedging instrument in case of FX hedges (e.g. caused by interest rate risk components in the fair value of the hedging instrument).

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

	Fair value	
	2018	**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**

NOTE 39: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Types of 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	-	

NOTE 39: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Types of hedge accounting [continued]

Amount, timing and uncertainty of future cash flows – hedging instruments [continued]

Type of hedge	Type of risk	Type of instrument	Within one month	Within three months and over one month	Within one year and over three months	Within five years and over one year	More than five years	Total
Fair Value Hedge	**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	

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	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)

NOTE 39: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Types of hedge accounting [continued]

Derivative financial instruments designated as hedge accounting as follows [continued]

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

NOTE 39: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

d) Fair value levels

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

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

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

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[1]
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[1]
Positive fair value of derivative financial assets designated as fair value hedge	10,277	-	10,277	-
Financial assets measured at fair value total	**2,502,999**	**1,852,787**	**640,374**	**9,838**
Negative fair value of 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**	**-**

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

NOTE 39: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

d) Fair value levels [continued]

Movements in Level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amount of Level 3 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 expenses, assets and liabilities can be identified and assignable to the segments,
- transactions between the different segments were eliminated,
- the main decisive board of the Group regularly controls the operating results,
- separated financial information is available.

Goodwill / investment impairment and their tax saving effect:

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:

NOTE 40: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS (in HUF mn) [continued]

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)	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
	a	b	1=a+b 1= 2+3+12+16+17	2	3=4+…+11	4	5	6	7	8	9	10	11	12=13+14+15	13	14	15	16	17
Net profit for the year	**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**	**3,850**	**2,999**	**24,960**	**43**	**2,213**	**15,976**	**9,828**	**4,159**	**1,989**	**6,189**	**526**
Profit before income tax	**352,159**	**10,575**	**362,734**	**195,162**	**143,086**	**21,035**	**29,174**	**51,603**	**4,901**	**3,137**	**30,598**	**99**	**2,539**	**16,840**	**9,780**	**4,572**	**2,488**	**6,924**	**718**
Adjusted operating profit	**391,446**	**(6,537)**	**384,909**	**144,578**	**213,538**	**68,879**	**30,094**	**57,097**	**10,585**	**6,227**	**35,455**	**2,597**	**2,604**	**18,902**	**10,180**	**4,447**	**4,275**	**6,924**	**961**
Adjusted total income	964,727	(83,001)	881,726	378,534	449,963	129,900	47,144	107,817	30,759	30,306	78,295	15,013	10,729	53,364	20,261	7,653	25,450	7,350	(7,489)
Adjusted net interest income	624,723	(24,892)	599,831	245,934	322,168	102,489	33,040	69,979	23,410	20,514	54,059	11,148	7,529	23,269	19,043	31	4,195	7,350	1,110
Fee and commission income related to lending	22,915	0	22,915	5,482	16,939	10,146	1,530	2,686	706	317	751	777	26	667	667	0	0	0	(174)
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	2,513	5,662	10,748	2,483	2,483	57	57	0	0	0	(913)
Fee and commission related to bank cards	94,395	0	94,395	65,447	29,511	5,375	4,997	6,649	1,671	1,832	5,962	985	2,040	0	0	0	0	0	(565)
Fee and commission income related to security trading	19,448	0	19,448	22,452	5,596	1	82	4,340	0	93	1,021	7	52	0	0	0	0	0	(8,601)
Other fee and commission income	56,381	(56,958)	(577)	(45,768)	23,317	11,306	3,907	2,828	787	643	2,750	745	351	22,927	859	14,409	7,659	0	(1,053)
Fee and commission income	338,081	(56,958)	281,123	142,357	126,417	33,102	14,892	33,018	5,677	8,547	21,232	4,997	4,952	23,651	1,583	14,409	7,659	0	(11,306)
Fee and commission expenses	(60,405)	14	(60,391)	(35,347)	(24,120)	(6,335)	(3,449)	(2,583)	(2,114)	(1,262)	(5,190)	(1,462)	(1,725)	(10,997)	(704)	(6,566)	(3,727)	0	10,072
Adjusted net profit from fees and commissions	277,676	(56,944)	220,732	107,010	102,297	26,767	11,443	30,435	3,563	7,285	16,042	3,535	3,227	12,654	879	7,843	3,932	0	(1,234)
Adjusted other net non-interest income	62,328	(1,165)	61,163	25,590	25,498	644	2,661	7,403	3,786	2,507	8,194	330	(27)	17,441	339	(221)	17,323	0	(7,365)
Adjusted other administrative expenses	(573,281)	76,464	(496,817)	(233,956)	(236,425)	(61,021)	(17,050)	(50,720)	(20,174)	(24,079)	(42,840)	(12,416)	(8,125)	(34,462)	(10,081)	(3,206)	(21,175)	(426)	8,450
Total risk costs	**(39,287)**	**13,119**	**(26,168)**	**46,591**	**(70,452)**	**(47,844)**	**-920**	**(5,494)**	**(5,684)**	**(3,090)**	**(4,857)**	**(2,498)**	**(65)**	**(2,062)**	**(400)**	**125**	**(1,787)**	**0**	**(243)**
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)	(4,794)	(3,146)	(3,046)	(2,579)	(46)	(145)	(174)	0	29	0	(301)
Other provision (adjustment)	0	(6,885)	(6,885)	(1,601)	(3,425)	(5,640)	760	4,038	(890)	56	(1,811)	81	(19)	(1,917)	(226)	125	(1,816)	0	58
Total other adjustments (one-off items)[1]	0	3,993	**3,993**	3,993	**0**	0	0	0	0	0	0	0	0	**0**	0	0	0	0	0
Income tax	(33,837)	(3,563)	**(37,400)**	(14,717)	**(20,891)**	(4,614)	(4,760)	(4,308)	(1,051)	(138)	(5,638)	(56)	(326)	**(864)**	48	(413)	(499)	(735)	(192)
Total Assets	**14,590,288**	**0**	**14,590,288**	**8,563,425**	**7,358,790**	**707,593**	**391,240**	**2,381,275**	**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)**
Total Liabilities	**12,763,631**	**0**	**12,763,631**	**7,001,737**	**6,217,042**	**559,595**	**333,419**	**1,927,384**	**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)**

( ) used at: provisions, impairment and expenses

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

NOTE 40: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS (in HUF mn) [continued]

As at 31 December 2017

Main components of the Consolidated Statement of Profit or Loss in HUF million	OTP Group - consolidated - in the Consolidated Statement of Profit or Loss - structure of accounting reports	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)	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
	a	b	1=a+b 1= 2+3+12+16+17	2	3=4+…+11	4	5	6	7	8	9	10	11	12=13+14+15	13	14	15	16	17
Net profit for the year	**281,339**		**281,339**																
Adjustments (total)		**(2,732)**	**(2,732)**																
Dividends and net cash transfers (after income tax)		680	680																
Goodwill /investment impairment (after income tax)		(6,064)	(6,064)																
Bank tax on financial institutions (after income tax)		(15,233)	(15,233)																
Effect of acquisition (after income tax)		177	177																
Impact of fines imposed by the Hungarian Competition Authority (after income tax)		17,708	17,708																
Consolidated adjusted net profit for the year	**281,339**	**2,733**	**284,072**	**168,576**	**96,652**	**20,381**	**14,120**	**47,121**	**3,035**	**(2,905)**	**17,107**	**(2,051)**	**(156)**	**18,062**	**9,836**	**8,678**	**(452)**	**195**	**587**
Profit before income tax	**322,842**	**(1,421)**	**321,421**	**185,562**	**115,015**	**26,079**	**17,074**	**52,041**	**3,951**	**(3,014)**	**20,849**	**(1,820)**	**(145)**	**19,894**	**10,453**	**9,500**	**(59)**	**584**	**366**
Adjusted operating profit	**363,690**	**(531)**	**363,159**	**150,834**	**192,737**	**64,497**	**18,876**	**61,460**	**9,345**	**1,360**	**28,781**	**6,616**	**1,802**	**16,655**	**8,410**	**9,229**	**(984)**	**3,114**	**(181)**
Adjusted total income	863,140	(58,195)	804,945	365,592	398,148	127,249	34,595	108,290	27,137	10,071	63,645	17,452	9,709	46,095	18,013	12,450	15,632	3,407	(8,297)
Adjusted net interest income	553,756	(7,102)	546,654	234,304	289,639	103,094	23,060	72,257	19,779	7,235	44,313	13,358	6,543	19,187	16,887	47	2,253	3,407	117
Fee and commission income related to lending	26,168	0	26,168	10,162	15,669	8,337	1,004	3,544	687	254	584	927	332	576	576	0	0	0	(239)
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	2,310	1,717	8,172	2,610	2,285	59	59	0	0	0	(563)
Fee and commission related to bank cards	84,282	0	84,282	60,066	24,338	5,662	3,663	5,891	1,394	710	4,515	741	1,762	0	0	0	0	0	(121)
Fee and commission income related to security trading	25,005	0	25,005	28,007	4,795	1	68	3,902	0	11	774	7	32	0	0	0	0	0	(7,797)
Other fee and commission income	53,871	(51,770)	2,101	(41,480)	20,171	10,055	3,166	2,526	696	332	2,414	647	335	24,865	613	19,208	5,044	0	(1,456)
Fee and commission income	315,606	(51,770)	263,836	141,598	106,915	30,358	11,946	30,363	5,087	3,024	16,459	4,932	4,746	25,500	1,248	19,208	5,044	0	(10,176)
Fee and commission expenses	(54,413)	5	(54,408)	(32,469)	(21,462)	(7,223)	(2,230)	(2,649)	(2,024)	(749)	(3,855)	(1,305)	(1,427)	(10,157)	(939)	(6,782)	(2,436)	0	9,679
Adjusted net profit from fees and commissions	261,193	(51,765)	209,428	109,129	85,453	23,135	9,716	27,714	3,063	2,275	12,604	3,627	3,319	15,343	309	12,426	2,608	0	(497)
Adjusted other net non-interest income	48,191	672	48,863	22,159	23,056	1,020	1,819	8,319	4,295	561	6,728	467	(153)	11,565	817	(23)	10,771	0	(7,917)
Adjusted other administrative expenses	(499,450)	57,664	(441,786)	(214,758)	(205,411)	(62,752)	(15,719)	(46,830)	(17,792)	(8,711)	(34,864)	(10,836)	(7,907)	(29,440)	(9,603)	(3,221)	(16,616)	(293)	8,116
Total risk costs	**(40,848)**	**(4,835)**	**(45,683)**	**30,783**	**(77,722)**	**(38,418)**	**-1,802**	**(9,419)**	**(5,394)**	**(4,374)**	**(7,932)**	**(8,436)**	**(1,947)**	**3,239**	**2,043**	**271**	**$925**	**(2,530)**	**547**
Adjusted provision for impairment on loan and placement losses (without the effect of revaluation of FX)	(40,848)	9,789	(31,059)	33,586	(67,107)	(37,561)	(1,060)	(3,571)	(5,062)	(3,133)	(7,498)	(8,358)	(864)	1,921	1,951	0	(30)	0	541
Other provision (adjustment)	0	(14,624)	(14,624)	(2,803)	(10,615)	(857)	(742)	(5,848)	(332)	(1,241)	(434)	(78)	(1,083)	1,318	92	271	955	(2,530)	6
Total other adjustments (one-off items)[1]	0	3,945	**3,945**	3,945	**0**	0	0	0	0	0	0	0	0	**0**	0	0	0	0	0
Income tax	(41,503)	4,154	**(37,349)**	(16,986)	**(18,363)**	(5,698)	(2,954)	(4,920)	(916)	109	(3,742)	(231)	(11)	**(1,832)**	(617)	(822)	(393)	(389)	221
Total Assets	**13,190,228**	**0**	**13,190,228**	**7,704,135**	**6,488,032**	**671,724**	**312,334**	**1,925,740**	**624,060**	**482,887**	**1,821,613**	**452,084**	**197,590**	**813,667**	**528,453**	**23,095**	**262,119**	**1,674,411**	**(3,490,017)**
Total Liabilities	**11,550,173**	**0**	**11,550,173**	**6,273,879**	**5,635,488**	**529,369**	**278,254**	**1,675,445**	**570,578**	**402,817**	**1,582,678**	**419,884**	**176,463**	**603,149**	**488,288**	**2,845**	**112,016**	**826,037**	**(1,788,380)**

( ) used at: provisions, impairment and expenses

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

NOTE 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 (in HUF mn)

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 3.0% 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.

NOTE 43: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE GROUP'S FINANCIALS (in HUF mn) [continued]

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 1.5-2.0%, 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%.

NOTE 43: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE GROUP'S FINANCIALS (in HUF mn) [continued]

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 0.20%.

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 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.

NOTE 43: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE GROUP'S FINANCIALS (in HUF mn) [continued]

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).