OTP Bank Annual Report

Financial Statements

2017

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of OTP Bank Plc.

Opinion

We have audited the consolidated financial statements of OTP Bank Plc. (the "Bank") and its subsidiaries (the "Group") for the year 2017 which comprise the consolidated statement of financial position as at December 31, 2017, which shows total assets of HUF 13,190,228 million, the related consolidated statement of profit or loss and the consolidated statement of comprehensive income, which shows a net profit for the year of HUF 281,339 million, the consolidated statement of changes in equity, and the consolidated statement of cash-flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2017 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.

Emphasis of Matter

We draw attention to Note 2.27, which describes the restatement of the corresponding figures as of December 31, 2016. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

Key audit matter	How our audit addressed the matter
Impairment of loans	
(See notes 8., 24., and 28.1. of the notes to the consolidated financial statements for the details) At the year end, the Group reported total gross loans of HUF 7,726,630 million and provisions for impairment on loan losses of HUF 738,796 million. The determination of impairment of loans 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 impairment of loans. The most significant assumptions applied in calculating the provision are the following: - valuation of collateral; - estimated time to realize collateral; - probability of default and recovery rates; and - estimation of future cash-flows expected to be realized. Based on the significance of the above described circumstances, the calculation of impairment of loans was considered as a key audit matter.	Our response as auditors included: - involvement of our actuarial and valuation experts to assist us in performing our procedures; - evaluating internal controls relating to monitoring of loans and calculating and recording of impairment; - sample based testing of specific loan impairments, including the assessment of valuation of collateral and estimation of expected future cash-flows; - assessing on a sample basis, whether the impairment triggers are captured and whether the estimation of the impairment is appropriate; - assessing the appropriateness of collective provisioning models; and - evaluating inputs, assumptions, management estimates and parameters applied, including comparison with historical data, and recalculating the impairment charge.

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Key audit matter	How our audit addressed the matter
Valuation of goodwill	
(See notes 11. and 32. of the notes to the consolidated financial statements for the details) The Bank performed several acquisitions in prior years, and as a result of these acquisitions a net amount of HUF 100,976 million of goodwill is presented in the consolidated statement of financial position. As required by the applicable accounting standards, management conducts regular impairment tests (at least annually) to assess whether there is a need to record impairment with respect to the goodwill. These impairment tests take into account several significant assumptions and the professional judgement of management including the application of discount rates, growth rates, cost levels and future risk costs. Accordingly, the valuation of goodwill is considered to be a key audit matter.	Our response as auditors included: - involvement of our valuation experts to assist us in performing our procedures; - assessing the appropriateness of the assumptions applied by management in the DCF calculations; - analysing the valuation models applied by management and considering the applied parameters whether they are appropriate and unbiased by examining available external and internal information; - performing sensitivity analysis on the key parameters of the models; and - assessing the appropriate application of the relevant accounting standards during the recording of the transactions, the related journal entries and disclosures required by those standards.

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Key audit matter	How our audit addressed the matter
Business combinations	
(See notes 11. and 32. of the notes to the consolidated financial statements for the details) The Bank performed significant acquisitions (acquisition of Splitska Banka and Vojvodjanska banka and their subsidiaries) during 2017 and a HUF 32,221 million gain was realized on bargain purchases relating to these acquisitions. As required by the applicable accounting standards, management performed a fair valuation of the identifiable assets, liabilities and contingent liabilities at the date of acquisition and determined the gain achieved on the bargain purchases by comparing the result of these valuations with the applicable purchase price. Significant judgement is applied in the identification of any intangible assets acquired and contingent liabilities assumed in the transactions. Significant assumptions and estimates are also used in the determination of the fair values of the identified assets acquired and liabilities assumed in the transactions, as this process involves estimation and judgement of future performance of the businesses and discount rates applied to future cash-flow forecasts, as well as determination of applicable current market interest rates and selection of appropriate valuation methods. Accordingly, the accounting for business combinations is considered to be a key audit matter.	Our response as auditors included: - involvement of our valuation experts to assist us in performing certain specific procedures and analysing the sale and purchase agreement to identify the key terms and conditions, and confirming our understanding of the transaction with management; - evaluating the assets and liabilities identified in the acquisition accounting; - evaluating fair valuation models applied by management together with the applied assumptions and the calculation of the gain achieved in the bargain purchases. We have rechecked those calculations taking all assumptions into consideration, to assess whether the gain on bargain purchase is reasonable for the transaction; - considering the appropriateness of the identified intangible assets and examining whether the applied parameters are unbiased based on external and internal information; - assessing whether the fair value of the non-financial instruments are supported by reasonable assumptions and proper valuation models; and - assessing the appropriate application of the relevant accounting standards, the related journal entries and disclosures.

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 2017" 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 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. 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 2017 corresponds to the consolidated financial statements of the Group for 2017 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

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the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

The auditor's responsibilities for the audit of the consolidated financial statements

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

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

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify the opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, 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 12, 2017 and our uninterrupted engagement has lasted for 25 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 13, 2018 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.

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The engagement partner on the audit resulting in this independent auditor's report is the signatory of the report.

Budapest, March 13, 2018

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Gion Gábor
on behalf of Deloitte Auditing and Consulting Ltd.
and as a statutory registered auditor

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

Registration number of statutory registered auditor: 005252

Statement of financial position

(consolidated, based on IFRS, as at 31 December 2017, in HUF million)

	Note	31 December 2017	31 December 2016 (restated*)	1 January 2016 (restated*)
Cash, amounts due from banks and balances with the National Banks	4	1,198,045	1,625,357	1,878,960
Placements with other banks, net of allowance for placement losses	5	462,180	363,530	300,568
Financial assets at fair value through profit or loss	6	344,417	189,778	182,359
Securities available-for-sale	7	2,174,718	1,527,093	1,305,486
Loans, net of allowance for loan losses	8	6,987,834	5,736,232	5,409,967
Associates and other investments	9	12,269	9,836	10,028
Securities held-to-maturity	10	1,310,331	1,114,227	926,677
Property and equipment	11	237,321	193,485	193,661
Intangible assets and goodwill	11	176,069	162,031	155,809
Investment properties	12	35,385	29,446	30,319
Derivative financial assets designated as fair value hedge	13	10,277	7,887	16,009
Other assets	13	241,382	250,139	242,219
from this: Deferred tax assets	13	29,419	52,593	73,079
form this: Current income tax receivable	13	14,281	11,679	20,492
TOTAL ASSETS		**13,190,228**	**11,209,041**	**10,652,062**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	14	472,068	543,775	533,310
Deposits from customers	15	10,233,471	8,540,583	7,984,579
Liabilities from issued securities	16	250,320	146,900	239,376
Financial liabilities at fair value through profit or loss	17	69,874	75,871	101,561
Derivative financial liabilities designated as fair value hedge	18	17,199	20,002	13,723
Other liabilities	18	431,213	383,803	311,070
from this: Deferred tax liabilities	18	9,271	3,234	4,610
from this: Current income tax payable	18	17,674	16,066	13,684
Subordinated bonds and loans	19	76,028	77,458	234,784
TOTAL LIABILITIES		**11,550,173**	**9,788,392**	**9,418,403**
Share capital	20	28,000	28,000	28,000
Retained earnings and reserves	21	1,671,879	1,449,478	1,261,029
Treasury shares	22	(63,289)	(60,121)	(58,021)
Non-controlling interest	23	3,465	3,292	2,651
TOTAL SHAREHOLDERS' EQUITY		**1,640,055**	**1,420,649**	**1,233,659**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**13,190,228**	**11,209,041**	**10,652,062**

Budapest, 13 March 2018

The accompanying notes to consolidated financial statements on pages 102 to 185 form an integral part of these Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards.

* Certain balance sheet items have been restated for 2016. For details see the Supplementary data section.

Statement of profit or loss

(consolidated, based on IFRS, for the year ended 31 December 2017, in HUF million)

	Note	2017	2016
Interest Income			
Loans		521,121	510,449
Placements with other banks		42,686	74,588
Securities available-for-sale		34,442	34,557
Securities held-to-maturity		56,343	51,427
Amounts due from banks and balances with the National Banks		1,444	9,866
Other		10,479	8,804
Total Interest Income		**666,515**	**689,691**
Interest Expense			
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks		(46,475)	(75,925)
Deposits from customers		(50,995)	(72,554)
Liabilities from issued securities		(5,727)	(4,726)
Subordinated bonds and loans		(2,259)	(10,239)
Other		(7,303)	(6,518)
Total Interest Expense		**(112,759)**	**(169,962)**
NET INTEREST INCOME		**553,756**	**519,729**
Provision for impairment on loan and placement losses	5, 8, 24	(40,848)	(93,473)
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES		**512,908**	**426,256**
Income from fees and commissions	25	315,606	272,235
Expense from fees and commissions	25	(54,413)	(49,244)
Net profit from fees and commissions		**261,193**	**222,991**
Foreign exchange gains, net		21,870	36,142
Gains on securities, net		7,930	20,828
Dividend income		4,152	3,054
Release of provision on securities available-for-sale and held-to-maturity		10	55
Other operating income	26	65,469	19,628
Other operating expense	26	(51,240)	(36,461)
Net operating gain		**48,191**	**43,246**
Personnel expenses	26	(213,886)	(191,442)
Depreciation and amortization	11	(48,988)	(44,427)
Goodwill impairment	11	(504)	–
Other administrative expenses	26	(236,072)	(220,229)
Other administrative expenses		**(499,450)**	**(456,098)**
PROFIT BEFORE INCOME TAX		**322,842**	**236,395**
Income tax expense	27	(41,503)	(33,943)
NET PROFIT FOR THE PERIOD		**281,339**	**202,452**
From this, attributable to:			
Non-controlling interest		**197**	**242**
Owners of the company		**281,142**	**202,210**
Consolidated earnings per share (in HUF)			
Basic	**39**	**1,074**	**765**
Diluted	**39**	**1,074**	**765**

Statement of comprehensive income

(consolidated, based on IFRS, for the year ended 31 December 2017, in HUF million)

	2017	2016
NET PROFIT FOR THE PERIOD	**281,339**	**202,452**
Items that may be reclassified subsequently to profit or loss		
Fair value adjustment of securities available-for-sale	15,677	9,583
Effect of tax rate-modification (19%→9%)	–	2,241
Net investment hedge in foreign operations	155	525
Foreign currency translation difference	(20,535)	24,554
Items that will not be reclassified subsequently to profit or loss		
Change of actuarial costs related to employee benefits	(241)	61
Subtotal	**(4,944)**	**36,964**
NET COMPREHENSIVE INCOME	**276,395**	**239,416**
From this, attributable to:		
Non-controlling interest	173	641
Owners of the company	276,222	238,775

The accompanying notes to consolidated financial statements on pages 102 to 185 form an integral part of these Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards.

Statement of changes in equity

(consolidated, based on IFRS, for the year ended 31 December 2017, in HUF million)

	Note	Share capital	Capital reserve	Share-based payment reserve	Retained earnings and reserves	Option reserve	Treasury shares	Non-controlling interest	Total
Balance as at 1 January 2016		**28,000**	**52**	**24,707**	**1,291,738**	**(55,468)**	**(58,021)**	**2,651**	**1,233,659**
Net profit for the period		–	–	–	202,210	–	–	242	202,452
Other Comprehensive Income		–	–	–	36,565	–	–	399	36,964
Share-based payment	30	–	–	3,530	–	–	–	–	3,530
Dividend for the year 2015		–	–	–	(46,200)	–	–	–	(46,200)
Sale of Treasury shares	22	–	–	–	–	–	9,882	–	9,882
Treasury shares									
– loss on sale		–	–	–	(3,915)	–	–	–	(3,915)
– acquisition	22	–	–	–	–	–	(11,982)	–	(11,982)
Payments to ICES holders	21	–	–	–	(3,741)	–	–	–	(3,741)
Balance as at 31 December 2016		**28,000**	**52**	**28,237**	**1,476,657**	**(55,468)**	**(60,121)**	**3,292**	**1,420,649**
Net profit for the period		–	–	–	281,142	–	–	197	281,339
Other Comprehensive Income		–	–	–	(4,920)	–	–	(24)	(4,944)
Share-based payment	30.	–	–	3,598	–	–	–	–	3,598
Dividend for the year 2016		–	–	–	(53,200)	–	–	–	(53,200)
Sale of Treasury shares	22.	–	–	–	–	–	10,342	–	10,342
Treasury shares									
– loss on sale		–	–	–	(2,839)	–	–	–	(2,839)
– acquisition	22.	–	–	–	–	–	(13,510)	–	(13,510)
Payments to ICES holders	21.	–	–	–	(1,380)	–	–	–	(1,380)
Balance as at 31 December 2017		**28,000**	**52**	**31,835**	**1,695,460**	**(55,468)**	**(63,289)**	**3,465**	**1,640,055**

The accompanying notes to consolidated financial statements on pages 102 to 185 form an integral part of these Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards.

* See details in Note 21.

Statement of cash-flows

(consolidated, based on IFRS, for the year ended 31 December 2017, in HUF million)

	Note	2017	2016 (restated*)
OPERATING ACTIVITIES			
Profit before income tax		**322,842**	**236,395**
Dividend income		(4,152)	(3,054)
Depreciation and amortization	11	48,988	44,427
Goodwill impairment	11	504	–
Release of provision on securities	7, 10	(10)	(55)
Provision for impairment on loan and placement losses	5, 8, 24	40,848	93,473
Provision for impairment on investments	9	184	687
(Release of provision)/Provision for impairment on investment properties	12	(71)	833
Provision for impairment on other assets	13	8,213	2,218
Provision/(Release of provision) on off-balance sheet commitments and contingent liabilities	18	15,957	(15,268)
Share-based payment	2, 30	3,598	3,530
Unrealized gains/(losses) on fair value change of securities held for trading		18,335	(9,969)
Unrealized gains on fair value change of derivative financial instruments		11,966	14,762
Net changes in assets and liabilities in operating activities			
Net increase in financial assets at fair value through profit or loss		(92,524)	(40,988)
Net increase in loans, before allowance for loan losses		(415,250)	(412,425)
Net increase in other assets before provisions for impairment		(10,737)	(30,622)
Net increase in deposits from customers		582,112	556,004
Net (decrease)/increase in other liabilities		(118,048)	100,329
Net decrease/(increase) in compulsory reserves at the National Banks		99,391	(45,079)
Income tax paid		(14,797)	(19,922)
Net Cash Provided by Operating Activities		**497,349**	**475,276**
Interest received		695,935	702,276
Interest paid		(112,718)	(158,181)
INVESTING ACTIVITIES			
Net decrease/(increase) in placement with other banks before allowance for placements losses		147,968	(62,830)
Purchase of securities available-for-sale		(955,382)	(814,918)
Proceeds from sale of securities available-for-sale		545,180	613,661
Net increase in investments in associates		(682)	(304)
Net decrease/(increase) in investments in other companies		8,762	(191)
Dividends received		3,739	3,054
Purchase of securities held-to-maturity		(1,166,466)	(877,412)
Redemption of securities held-to-maturity		970,365	692,831
Purchase of property, equipment and intangible assets		(131,028)	(71,575)
Proceeds from disposals of property, equipment and intangible assets		22,383	19,537
Net decrease in investment properties before provision for impairment		5,060	40
Net decrease/(increase) in advances for investments included in other assets		8	(3)
Net cash paid for acquisition	32	(128,588)	–
Net Cash Used in Investing Activities		**(678,681)**	**(498,110)**
FINANCING ACTIVITIES			
Net (decrease)/increase in amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks		(167,670)	10,465
Cash received from issuance of securities		184,636	27,539
Cash used for redemption of issued securities		(81,216)	(120,015)
Decrease in subordinated bonds and loans		(1,430)	(157,326)
Increase in non-controlling interest		173	640
Payments to ICES holders	21	(1,380)	(9,135)
Purchase of Treasury shares		10,342	9,881
Sales of Treasury shares		(16,349)	(15,897)
Dividends paid		(53,191)	(46,152)
Net Cash Used in Financing Activities		**(126,085)**	**(300,000)**
Net decrease in cash and cash equivalents		**(307,417)**	**(322,834)**
Cash and cash equivalents at the beginning of the period		**1,128,610**	**1,427,292**
Foreign currency translation		(20,504)	24,152
Cash and cash equivalents at the end of the period	4	**800,689**	**1,128,610**

The accompanying notes to consolidated financial statements on pages 102 to 185 form an integral part of these Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards.

* Certain balance sheet items have been restated for 2016. For details see the Supplementary data section.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 1: ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS

1.1 General information

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

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

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

These Consolidated Financial Statements were approved by the Board of Directors and authorised for issue on 13 March 2018.

The structure of the Share capital by shareholders:

	2017	2016
Domestic and foreign private and institutional investors	98%	97%
Employees	1%	2%
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 1,488 branches. The Group has operations in Hungary, Bulgaria, Russia, Ukraine, Croatia, Romania, Slovakia, Serbia and Montenegro.

The number of employees at the Group:

	2017	2016
The number of employees at the Group	41,514	38,575
The average number of employees at the Group	41,127	37,782

1.2 Basis of Accounting

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

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

Due to the fact that the Bank is listed on international and national stock exchanges, the Bank is obliged to present its financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (the "EU").

Certain adjustments have been made to the Entities' statutory accounts in order to present the Consolidated Financial Statements of the Group in accordance with all standards and interpretations approved by the International Accounting Standards Board ("IASB").

The Consolidated Financial Statements have been prepared in accordance with IFRS as adopted by the EU. IFRS as adopted by the EU do not currently differ from IFRS as issued by the IASB, except for portfolio hedge accounting under IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") which has not been approved by the EU. As the Group does not apply portfolio hedge accounting under IAS 39, there would be no impact on these Consolidated Financial Statements, had it been approved by the EU before the preparation of these financial statement.

1.2.1 The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2017

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

- **Amendments to IAS 7 "Statement of Cash-flows"** – Disclosure Initiative – adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 12 "Income Taxes"** – Recognition of Deferred Tax Assets for Unrealised Losses – adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IFRS 12 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 12 are to be applied for annual periods beginning on or after 1 January 2017).

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 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),
- **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 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 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).

The adoption of the above presented Amendments and new Standards and Interpretations would have no significant impact on the Group's consolidated financial statements in the period of initial application except for IFRS 9 and IFRS 16.

Implementation of IFRS 16

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

Under IFRS 16 a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. As with IFRS 16's predecessor, IAS 17, lessors classify leases as operating or finance in nature. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise a lease is classified as an operating lease. For finance leases a lessor recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognises operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis.

Implementation of IFRS 9

The Group analysed the estimated impact of the application of IFRS 9 in accordance with IAS 8, paragraph 30–31 and is presented in the Group's consolidated financial statements the following way.

IFRS 9 "Financial Instruments" replaces IAS 39 "Financial Instruments: Recognition and Measurement" for annual reporting periods commencing on or after 1 January 2018. It contains changes to the requirements relating to the recognition and measurement, impairment, derecognition and hedge accounting.

The Group started its preparation for IFRS 9 actively in 2016, led by the Bank's Risk Management and Finance Divisions, and during 2017 much of the preparation was finalized centrally. The preparations covered the key challenges that the Bank faces with the new standard. The identification of gaps between its currently developed methodologies and the IFRS 9 requirements in classification and measurement, impairment and hedge accounting was completed in recent months, with various harmonizing processes required in respect of measuring a significant increase in credit risk (SICR). Finalisation of most of these activities is planned for the first half of 2018, although some of them may not be finalised until the end of 2018 for some insignificant portfolios.

Classification and measurement

IFRS 9 introduces a new approach for the classification of financial assets driven by cash-flow characteristics and the business model in which an asset is held. The Bank recognizes the financial liabilities on amortized cost except in those cases when the standard requires otherwise, or according to the fair value option the entity chose to recognize the financial instrument on the fair value through profit or loss. Preliminary analyses of the business models and contractual cash-flows on the Group's significant portfolios were performed to determine by product segments those financial instruments that would be measured at amortised cost, at fair value through profit or loss, or at fair value through Other Comprehensive Income.

According to the estimation, HUF million 23,173 loans will be measured at fair value as at 1 January 2018 in the consolidated financial statements.

Hedge accounting

IFRS 9 introduces a substantially revised model for hedge accounting, with enhanced disclosures about risk management activity. The new model aligns accounting treatment with risk management activities, having enabled entities to better reflect these activities in their financial statements. In addition, users of the financial state+ ments are provided with better information about risk management and the effect of hedge accounting on the financial statements. OTP has already started to implement the requirements of IFRS 9 for the hedge accounting.

Impairment

IFRS 9 introduces an expected-loss impairment model instead of the previously applied incurred loss model that requires a more timely recognition of credit losses. The standard requires entities to account for expected credit losses from the moment when financial instruments are first identified.
The use of a new, three stage model was implemented for IFRS 9 purposes. The new impairment methodology is used to classify financial instruments in order to determine whether credit risk has significantly increased since initial recognition and able to identify credit-impaired assets. For instruments with credit-impairment or significant increase of credit risk, lifetime expected losses will be recognized.

The increased credit-impairment is identified by transactions on the basis of predetermined conditions and beyond this the estimation is made on a portfolio level. Assets where no significant increase of credit risk (excluding purchased or originated credit-impaired financial assets) was identified remains to be provisioned based on a 12-month expected loss methodology.

For purchased or originated credit-impaired financial assets, the same lifetime expected loss methodology was extended in order to be able to capture the cumulative changes in lifetime expected credit losses since the initial recognition as a credit-impaired instrument.

The Group chose the use of the simplified impairment approach for trade receivables and contract assets.

The Group started to further improve its risk management definitions, processes and methodological analysis in line with the expectations of IFRS 9. The Bank has started developing the methodology – using the behavioural scoring model – for the identification of significant increase of credit risk and the calculation of expected credit losses through the use of IFRS 9 compliant risk parameters.

Based on the gap analyses and the changes in methodology, the main principles regarding the IT solutions for IFRS 9 implementation were laid down. Preliminary specifications were prepared and IT implementation was completed mostly in 2017, although there are ongoing aspects such as rating/scoring models for significant portfolios, where the developments have not yet been finished.

The estimation of quantitative impact of IFRS 9 is based on the best estimation of our management as of the date of the issue of these consolidated financial statements. However the management of the Group consider uncertainties exist in respect of certain aspects of the methodology described above, together with interpretations of the standard, and evolving industry practice, and these uncertainties could result in these initial estimates varying to what is ultimately adjusted as of 1 January 2018, and the amount of the variance could be significant.

The IFRS 9 implementation project was driven by the Group headquarters. The unified methodology and the initial parameter estimation was developed and delivered centrally. The rollout of the calculations to the subsidiaries is ongoing and at the time of issue of these consolidated financial statements had not been completed.

The preliminary estimate for the impact of implementing the IFRS 9 standards, including the deferred tax effect, on the retained earnings is around HUF 50 billion decrease in the opening consolidated balance sheet as of 1 January 2018. OTP Bank opted to apply transitional rules (phase-in), i.e. in 2018 the expected negative CET1 impact will be around 3 bps.

In HUF million (before tax)	Opening balance according to IAS 39 as at 1 January 2018	Remeasurement due to reclassification	Remeasurement due to impairment	Opening balance according to IFRS 9 as at 1 January 2018
Placements with other banks	462,180	–	(566)	461,614
Loans	6,987,834	1,425	(46,277)	6,942,982
Securities	3,744,312	–	(5,574)	3,738,738
Amounts due to banks	(472,068)	(1,437)	–	(473,505)
Loan commitments (off-balance sheet items)	(16,880)	–	(6,212)	(23,092)
Total	**–**	**(12)**	**(58,629)**	**–**

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

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 2 "Share-based Payment"** – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 9 "Financial Instruments"** – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 10 "Consolidated Financial Statements"** and **IAS 28 "Investments in Associates and Joint Ventures"** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IAS 19 "Employee Benefits"** – Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 40 "Investment property"** – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to various standards "Improvements to IFRSs (cycle 2015–2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2019),
- **IFRIC 22 Interpretation "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018),
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019).

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Presentation

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

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

2.2 Foreign currency translation

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

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

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

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

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

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

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

2.3 Principles of consolidation

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

2.4 Accounting for acquisitions

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

If the Group loses control of a subsidiary, derecognizes the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost and recognizes any difference as a gain or loss on the sale attributable to the parent in Statement of Profit or Loss.

Goodwill acquired in a business combination is tested for impairment annually or more frequently if events or changes in circumstances indicate. The goodwill is allocated to the cost generating units that are expected to benefit from the synergies of the combinations.
The Group calculates the fair value based on discounted cash-flow model. The 5 year period explicit cash-flow model serves as a basis for the impairment test by which the Group defines the impairment need on goodwill based on the strategic factors and financial data of its cash-generating units.

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

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 held-to-maturity

Investments in securities, traded in active market (with fixed or determinable cash-flows) are accounted for on a settlement date basis and are initially measured at fair value.
At subsequent reporting dates, securities that the Group has the expressed intention and ability to hold to maturity are measured at amortised cost, less any impairment losses recognized to reflect irrecoverable amounts. The amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the investment so that the revenue recognized in each period represents a constant yield on the investment.

Such securities comprise mainly securities issued by the Hungarian and foreign Government, discounted Treasury bills and corporate bonds.

2.6 Financial assets at fair value through profit or loss

2.6.1 Securities held for trading

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

2.6.2 Derivative financial instruments

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

[1] First In First Out

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 IAS 39 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 transactions. The swap transaction is an agreement concerning the swap of certain financial instruments, which usually consists of a prompt and one or more forward contracts.
Interest rate swaps 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 interest rate swaps. Such notional principal amounts often are used to express the volume of these transactions but are not actually exchanged between the counterparties.
The interest rate swaps are used by the Group for risk management and trading purposes.

Cross-currency interest rate swaps

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

Equity and commodity swaps

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

Forward rate agreements (FRA)

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

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

Foreign exchange options

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

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

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

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

2.8 Offsetting

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

2.9 Embedded derivatives

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

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

2.10 Securities available-for-sale

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Securities available-for-sale are measured at subsequent reporting dates at fair value. Unrealized gains and losses on available-for-sale financial instruments are recognized directly in Other Comprehensive Income, except for interest and foreign exchange gains/losses on monetary items, unless such available-for-sale security is part of an effective hedge. Such gains and losses will be reported when realized in Consolidated Statement of Profit or Loss for the applicable period. The Group applies the FIFO[1] inventory valuation method for securities held for trading.

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

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

Securities available-for-sale 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.

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

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

Loans and placements with other banks are accounted at amortized cost, stated at the principal amounts outstanding (including accrued interest), net of allowance for loan or placement losses, respectively. Transaction fees and charges should adjust the carrying amount at initial recognition and be included in effective interest calculation. Loans and placements with other banks are derecognised when the contractual rights to the cash-flows expire or they are transferred. Interest and amortised cost are accounted using effective interest rate method.
When a borrower is unable to meet payments as they fall due or, in the opinion of the Management, there is an indication that a borrower may be unable to meet payments as they fall due, all unpaid interest is impaired.

According to IAS 39, initially financial asset shall be recognized at fair value which is usually equal to transaction value of loans

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and receivables. Initial fair value of loans and receivables lent at interest below market conditions is lower than their transaction price. As a consequence the Bank is deferring the difference between the fair value at initial recognition and the transaction price relating to loans and receivables because input data for measuring the fair values are not available on observable markets.

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

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

If the reason for provisioning is no longer deemed appropriate, the redundant provisioning charge is released into net operating income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss shall be reversed by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote. The loan is written off against the related account "Provision for impairment on loan and placement losses" in the Consolidated Statement of Profit or Loss.
The Group applies partial or full write-off for loans based on the definitions and prescriptions of financial instruments in accordance with IAS 39. If the Group has no reasonable expectations regarding a financial asset (loan) to be recovered, it will be written off partially or fully at the time of emergence. A loan will be written off if it is overdue or was terminated by the Group.

The gross amount and impairment loss of the loans shall be written off in the same amount to the estimated maximum recovery amount while the net carrying value remains unchanged. 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 predetermined 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 IAS 39, when appropriate. Gains and losses on the sale of investments are determined on the basis of the specific identification of the cost of each investment.

2.14 Property and equipment, Intangible assets

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

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

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

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

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

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

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

as the part of the cost of the hedged asset as it has arisen until recognising the asset and it is tightly connecting to the purchasing.

2.15 Financial liabilities

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

2.16 Leases

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

The Group as a lessor

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

The Group as a lessee

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

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

2.17 Investment properties

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

2.18 Treasury shares

Treasury shares are shares which are purchased on the stock exchange and the

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

2.19 Interest income and interest expense

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

2.20 Fees and Commissions

Fees and commissions are recognized using the effective interest method referring to provisions of IAS 39, 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 IAS 18 Revenue.

2.21 Dividend income

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

2.22 Income tax

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

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

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

2.23 Off-balance sheet commitments and contingent liabilities

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

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

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

2.24 Share-based payment and employee benefit

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

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

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

2.25 Consolidated Statement of Cash-flows

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

2.26 Segment reporting

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

2.27 Comparative figures and restatement

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 2016, which were approved by the Management board on 16 March 2017, however certain balances have been restated as described below.
According to IAS 8 the Group has restated the comparative period and the opening balances of assets, liabilities and equity by presenting a third balance sheet column in the Consolidated Statement of Financial Position. Additionally the required disclosures have been made

throughout the financial statements where relevant.

In order to better reflect the nature of the OTP–MOL share swap transaction the Management has decided to change the presentation by recognising the fair value of the derivative as a single figure as disclosed in Note 6, rather than presenting it separately as financial assets and liabilities.

In the restated consolidated statement of financial position, the fair value of the derivative is recognised in the amount which is equal to the sum of previously recognised positive fair value of the asset and the previously recognised negative value of the liability. The valuation model for the share-swap has not changed, only the presentation in the statement of financial position has been changed. Since the MOL shares and the related financial liability have been measured at fair value in the consolidated financial statements the change does not affect the Group's Profit or Loss, shareholder's equity and earnings per share ("EPS") ratio.

In the Consolidated Statement of Cash-flows for the year 2016 changes in financial assets at fair value through profit or loss, other assets and other liabilities explained the restatement, but altogether the net cash from operating activities wasn't affected.

Comparative figures and restatement (in HUF million)	31 December 2016	Restatement adjustment	31 December 2016 (restated)	31 December 2015	Restatement adjustment	31 December 2015 (restated)
Financial assets at fair value through profit or loss	293,106	(103,328)	189,778	253,782	(71,423)	182,359
Other assets	245,435	4,704	250,139	237,582	4,637	242,219
Total assets	**11,307,665**	**(98,624)**	**11,209,041**	**10,718,848**	**(66,786)**	**10,652,062**
Other liabilities	482,427	(98,624)	383,803	377,856	(66,786)	311,070
Total liabilities	**9,887,016**	**(98,624)**	**9,788,392**	**9,485,189**	**(66,786)**	**9,418,403**

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 historical experience and other factors that are considered to be relevant. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period. Actual results could differ from those estimates.

Significant areas of subjective judgement include:

3.1 Impairment on loans and placements

The Group regularly assesses its loan portfolio for impairment. Management determines the adequacy of the allowances based upon reviews of individual loans and placements, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors. Provisioning involves many uncertainties about the outcome of those risks and requires the Management of the Group to make many subjective judgements in estimating the loss amounts. An impairment loss is incurred when there is objective evidence of impairment due to one or more events that occurred after the initial recognition of the asset ('a loss event'), when the loss has a reliably measurable impact on the expected future cash-flows from the financial asset or group of financial assets. Future cash flows are assessed by the Group on the basis of estimates based on historical parameters. The adopted methodology used for estimating impairment allowances will be developed in line with the further possibilities of accumulations of historic impairment data from the existing information systems and applications. As a consequence, acquiring new data by the Group could affect the level of impairment allowances in the future.

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

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.).
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.
Provision for off-balance sheet items includes provision for litigation, provision for retirement and expected liabilities, for commitments to extend credit, provision for warranties arising from banking activities and provision for confirmed letter of credit.

3.4 Impairment on goodwill

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

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

	2017	2016
Cash on hand		
In HUF	95,113	89,402
In foreign currency	199,102	165,425
	294,215	**254,827**
Amounts due from banks and balances with the National Banks		
Within one year:		
In HUF	208,200	501,249
In foreign currency	695,475	869,034
	903,675	**1,370,283**
Over one year:		
In HUF	–	–
In foreign currency	–	–
	–	**–**
Accrued interest	155	247
Total	**1,198,045**	**1,625,357**
Compulsory reserve set by the National Banks*	(397,356)	(496,747)
Cash and cash equivalents	**800,689**	**1,128,610**

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

	2017	2016
Within one year:		
In HUF	51,447	55,804
In foreign currency	357,849	299,755
	409,296	**355,559**
Over one year:		
In HUF	52,410	5,206
In foreign currency	380	2,699
	52,790	**7,905**
Accrued interest	162	161
Provision for impairment on placement losses	(68)	(95)
Total	**462,180**	**363,530**

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

	2017	2016
Balance as at 1 January	**95**	**50**
Provision for the period	53	46
Release of provision for the period	(77)	–
Foreign currency translation difference	(3)	(1)
Closing balance	**68**	**95**

Interest conditions of placements with other banks:

	2017	2016
In HUF	(0.5)%–3.84%	0.01%–2.86%
In foreign currency	(20.0)%–14.9%	(15.0)%–16.5%
Average interest rates on placements with other banks	**0.98%**	**1.25%**

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

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

Securities held for trading:

	2017	2016 (restated)	2015 (restated)
Government bonds	113,572	40,095	25,866
Interest bearing treasury bills	93,806	15,639	7,768
Shares and investment bonds	11,169	1,074	1,197
Discounted Treasury bills	1,169	97	366
Other securities	34,631	14,396	178
Other non-interest bearing securities	1,248	9,237	4,507
	255,595	**80,538**	**39,882**
Accrued interest	3,668	930	671
Total	**259,263**	**81,468**	**40,553**

Positive fair value of derivative financial instruments classified as held for trading:

	2017	2016 (restated)	2015 (restated)
Interest rate swaps classified as held for trading	33,377	38,878	33,770
Foreign exchange swaps classified as held for trading	18,047	17,148	15,551
CCIRS and mark-to-market CCIRS* classified as held for trading	16,976	34,100	84,270
Foreign exchange forward contracts classified as held for trading	4,998	94	124
Other derivative transactions classified as held for trading	11,756	18,090	8,091
	85,154	**108,310**	**141,806**
Total	**344,417**	**189,778**	**182,359**

An analysis of securities held for trading portfolio by currency:

	2017	2016
Denominated in HUF	67.3%	74.1%
Denominated in foreign currency	32.7%	25.9%
Total	**100.0%**	**100.0%**

An analysis of government bond portfolio by currency:

	2017	2016
Denominated in HUF	55.0%	25.8%
Denominated in foreign currency	45.0%	74.2%
Total	**100.0%**	**100.0%**
Interest rates on securities held for trading	0.01%–9.25%	0.33%–7.75%
Average interest rates on securities held for trading	**2.20%**	**3.46%**

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

	2017	2016 (restated)	2015 (restated)
Within one year:			
With variable interest	2,991	1,845	18
With fixed interest	136,194	32,219	8,547
	139,185	**34,064**	**8,565**
Over one year:			
With variable interest	14,214	3,111	2,181
With fixed interest	89,779	33,052	23,432
	103,993	**36,163**	**25,613**
Non-interest bearing securities	12,417	10,311	5,704
Total	**255,595**	**80,538**	**39,882**

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

NOTE 7: SECURITIES AVAILABLE-FOR-SALE (in HUF mn)

	2017	2016
Government bonds	1,703,665	1,323,178
Discounted Treasury bills	223,238	20,944
Corporate bonds	174,742	130,533
From this:		
Listed securities:		
In HUF	84,048	41,448
In foreign currency	49,737	23,871
	133,785	65,319
Non-listed securities:		
In HUF	32,598	38,990
In foreign currency	8,359	26,224
	40,957	65,214
Other securities	545	441
Other non-interest bearing securities	50,153	36,728
From this:		
Listed securities:		
In HUF	1,472	1,460
In foreign currency	76	49
	1,548	1,509
Non-listed securities:		
In HUF	19,419	12,541
In foreign currency	29,186	22,678
	48,605	35,219
	2,152,343	1,511,824
Accrued interest	22,745	15,574
Provision for impairment on securities available-for-sale	(370)	(305)
Total	**2,174,718**	**1,527,093**

An analysis of securities available-for-sale by currency:

	2017	2016
Denominated in HUF	61.7%	68.1%
Denominated in foreign currency	38.3%	31.9%
Total	**100.0%**	**100.0%**

An analysis of government bonds by currency:

	2017	2016
Denominated in HUF	61.4%	70.6%
Denominated in foreign currency	38.6%	29.4%
Total	**100.0%**	**100.0%**

	2017	2016
Interest rates on securities available-for-sale denominated in HUF	0.01%–7.5%	0.33%–7.5%
Interest rates on securities available-for-sale denominated in foreign currency	(0.25)%–18.2%	0.1%–26.4%
Average interest rates on securities available-for-sale denominated in HUF	1.56%	2.30%
Average interest rates on securities available-for-sale denominated in foreign currency	2.63%	3.25%

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

	2017	2016
Within one year:		
With variable interest	756	597
With fixed interest	615,554	161,781
	616,310	**162,378**
Over one year:		
With variable interest	75,651	40,340
With fixed interest	1,410,229	1,272,378
	1,485,880	**1,312,718**
Non-interest bearing securities	50,153	36,728
Total	**2,152,343**	**1,511,824**

An analysis of the change in the provision for impairment on securities available-for-sale is as follows:

	2017	2016
Balance as at 1 January	**305**	**383**
Reclassification from equity investments	96	–
Provision for the period	4	3
Release of provision	(11)	(58)
Use of provision	–	(2)
Foreign currency translation difference	(24)	(21)
Closing balance	**370**	**305**

Certain securities are hedged against interest rate risk (see Note 41).

NOTE 8: LOANS, NET OF ALLOWANCE FOR LOAN LOSSES (in HUF mn)

	2017	2016
Short-term loans and promissory notes (within one year)	2,628,507	2,283,460
Long-term loans and promissory notes (over one year)	5,098,123	4,397,045
	7,726,630	**6,680,505**
Provision for impairment on loan losses	(738,796)	(944,273)
Total	**6,987,834**	**5,736,232**

An analysis of the gross loan portfolio by currency:

	2017	2016
In HUF	34%	38%
In foreign currency	66%	62%
Total	**100%**	**100%**

Interest rates of the loan portfolio are as follows:

	2017	2016
Short-term loans denominated in HUF	0.0%–37.5%	0.0%–44.1%
Long-term loans denominated in HUF	0.0%–37.5%	(0.35)%–37.5%
Short-term loans denominated in foreign currency	(0.67)%–59.9%	(0.7)%–64.9%
Long-term loans denominated in foreign currency	(0.67)%–59.0%	(0.7)%–59.7%
Average interest rates on loans denominated in HUF	7.55%	8.48%
Average interest rates on loans denominated in foreign currency	7.66%	8.35%

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

	2017	2016
Balance as at 1 January	**944,273**	**1,013,620**
Provision for the period	355,929	419,801
Release of provision	(351,214)	(358,545)
Use of provision	(105,734)	(94,188)
Increase due to acquisition	6,917	–
Reclassification	(1,397)	–
Partial write-off*	(76,947)	(36,267)
Foreign currency translation difference	(33,031)	(148)
Closing balance	**738,796**	**944,273**

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

	2017	2016
Provision/(Release of provision) on placements and losses/(gains) on placements due to write-off and sale	228	(132)
Provision for impairment on loans and loan losses due to write-off and sale	40,620	93,605
Total	**40,848**	**93,473**

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

	2017	2016
Investments		
Investments in associates (non-listed)	7,335	6,240
Other investments (non-listed) at cost	9,338	7,926
	16,673	**14,166**
Provision for impairment on investments	(4,404)	(4,330)
Total	**12,269**	**9,836**

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

	2017	2016
Balance as at 1 January	**4,330**	**3,882**
Provision for the period	184	687
Use of provision	(13)	(234)
Reclassification to securities available-for-sale	(96)	–
Foreign currency translation difference	(1)	(5)
Closing balance	**4,404**	**4,330**

NOTE 10: SECURITIES HELD-TO-MATURITY (in HUF mn)

	2017	2016
Government bonds	1,290,630	1,095,897
Discounted Treasury bills	30	113
Corporate bonds	6	5
Mortgage bonds	–	52
	1,290,666	**1,096,067**
Accrued interest	20,381	18,960
Provision for impairment on securities held-to-maturity	(716)	(800)
Total	**1,310,331**	**1,114,227**

* See details in Note 2.11.

Interest conditions and the remaining maturities of securities held-to-maturity can be analysed as follows:

	2017	2016
Within one year:		
With variable interest	270	10
With fixed interest	105,251	120,079
	105,521	**120,089**
Over one year:		
With variable interest	–	635
With fixed interest	1,185,145	975,343
	1,185,145	**975,978**
Total	**1,290,666**	**1,096,067**

An analysis of securities held-to-maturity by currency:

	2017	2016
Denominated in HUF	91.8%	91.0%
Denominated in foreign currency	8.2%	9.0%
Total	**100.0%**	**100.0%**

	2017	2016
Interest rates of securities held-to-maturity with variable interest	1.4%–4.45%	0.9%–4.7%
Interest rates of securities held-to-maturity with fixed interest	1.39%–14.5%	2.2%–14.0%
Average interest rates on securities held-to-maturity	4.72%	5.13%

An analysis of the change in the provision for impairment on securities held-to-maturity is as follows:

	2017	2016
Balance as at 1 January	**800**	**807**
Provision for the period	15	18
Release of provision	(18)	(18)
Use of provision	(93)	(7)
Foreign currency translation difference	12	–
Closing balance	**716**	**800**

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

For the year ended 31 December 2017:

	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Total
Cost					
Balance as at 1 January	**300,216**	**197,913**	**163,285**	**12,451**	**673,865**
Acquisition	14,938	29,406	2,791	365	47,500
Additions	37,275	13,355	29,233	37,855	117,718
Foreign currency translation differences	(4,746)	(1,393)	(1,470)	(96)	(7,705)
Disposals	(45,626)	(12,768)	(19,254)	(30,542)	(108,190)
Balance as at 31 December	**302,057**	**226,513**	**174,585**	**20,033**	**723,188**
Depreciation and Amortization					
Balance as at 1 January	**138,185**	**54,026**	**126,138**	**–**	**318,349**
Charge for the period (without goodwill impairment)	27,081	7,400	14,507	–	48,988
Goodwill impairment	504	–	–	–	504
Foreign currency translation differences	(1,067)	(555)	(1,155)	–	(2,777)
Disposals	(38,715)	(2,725)	(13,826)	–	(55,266)
Balance as at 31 December	**125,988**	**58,146**	**125,664**	**–**	**309,798**
Carrying value					
Balance as at 1 January	**162,031**	**143,887**	**37,147**	**12,451**	**355,516**
Balance as at 31 December	**176,069**	**168,367**	**48,921**	**20,033**	**413,390**

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

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

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

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

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

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

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 both as at 31 December 2017 and 2016, preparation of the impairment test was needed where a three-year cash-flow model was applied with an explicit period between 2018–2020. The basis for the estimation was the annual financial strategic plan for year 2017, while for the three-year explicit period the Bank applied the prognosis for year 2018 accepted by the Management Committee of the subsidiaries and on the basis of this prognosis the prepared medium-term (2019–2020) forecasts. When the Bank prepared the calculations for the period 2019–2020, it considered the actual worldwide economic situations, the expected economic growth for the following years, their possible effects on the financial sector, the plans for growing which result from these, and the expected changes of the mentioned factors.

Present value calculation with the FCF method

The Bank calculated the expected cash-flow for the given period based on the expected after tax profit of the companies. For calculating the discount factor as risk free rates in case of OTP Bank JSC (Ukraine) the local interbank

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

interest rate in foreign currency with a period of one year was applied, while in case of the other subsidiaries the ten-year local government bonds in foreign currency or swap yields were considered as presented in the actual macro forecasts. The Bank calculated risk premiums on the basis of information from the country risk premiums that are published on damodaran.com, which were modified with CDS spread in case of OTP Banka Slovensko a.s and Crnogorska komercijalna banka a.d., since according to the Bank's assumption the risk free interest rate includes the country-dependent risks in an implicit way.

The growth rate in the explicit period is the growth rate of the profit after tax adjusted by the interest rate of the cash and subordinated loans. The supposed growth rates for the periods of residual values reflect the long-term economic expectations in case of every country. The values of the subsidiaries in the FCF method were then calculated as the sum of the discounted cash-flows of the explicit period, the present value of the terminal values and the initial free capital assuming an effective capital structure.

Present value calculation with the EVA method

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

Summary of the impairment test for the 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.

For the year ended 31 December 2016:

	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Total
Cost					
Balance as at 1 January	**301,539**	**197,832**	**158,985**	**10,010**	**668,366**
Acquisition	384	11	37	–	432
Additions	31,121	6,617	18,520	27,549	83,807
Foreign currency translation differences	10,328	1,686	1,832	(9)	13,837
Disposals	(43,156)	(8,233)	(16,089)	(25,099)	(92,577)
Balance as at 31 December	**300,216**	**197,913**	**163,285**	**12,451**	**673,865**
Depreciation and Amortization					
Balance as at 1 January	**145,730**	**53,451**	**119,715**	**–**	**318,896**
Charge for the year (without goodwill impairment)	23,390	5,306	15,731	–	44,427
Foreign currency translation differences	749	555	1,632	–	2,936
Disposals	(31,702)	(5,286)	(10,953)	–	(47,941)
Change in consolidation scope	18	–	13	–	31
Balance as at 31 December	**138,185**	**54,026**	**126,138**	**–**	**318,349**
Carrying value					
Balance as at 1 January	**155,809**	**144,381**	**39,270**	**10,010**	**349,470**
Balance as at 31 December	**162,031**	**143,887**	**37,147**	**12,451**	**355,516**

An analysis of the intangible assets for the year ended 31 December 2016 is as follows:

	Self-developed	Other	Total
Intangible assets			
Gross values	5,545	190,389	**195,934**
Depreciation and amortization	2,742	135,443	**138,185**
Carrying value	**2,803**	**54,946**	**57,749**

An analysis of the changes in the goodwill for the year ended 31 December 2016 is as follows:

	Goodwill
Balance as at 1 January	**95,994**
Additions	–
Foreign currency translation difference	8,288
Impairment for the current period	–
Balance as at 31 December	**104,282**
Carrying value	
Balance as at 1 January	**95,994**
Balance as at 31 December	**104,282**

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

List of units	HUF million
JSC "OTP Bank" (Russia)	44,906
DSK Bank EAD	28,541
OTP banka Hrvatska d.d.	18,055
OTP Bank Romania S.A.	6,180
Monicomp Ltd.	5,732
OTP Banka Slovensko a.s.	513
Other*	355
Total	**104,282**

Summary of the impairment test for the year ended 31 December 2016

Based on the valuations of the subsidiaries no goodwill impairment was needed on Group level as at 31 December 2016.

NOTE 12: INVESTMENT PROPERTIES (in HUF mn)

For the year ended 31 December 2017:

	Investment property	Investment property subject to operating lease	Total
Gross value			
Balance as at 1 January	**37,270**	**7,577**	**44,847**
Increase due to transfer from inventories or owner-occupied properties	4,851	1,028	5,879
Additions due to acquisition	3,307	87	3,394
Increase from purchase	660	–	660
Increase due to transfer from held-for-sale properties	44	–	44
Other additions	296	13	309
Reclassification	–	1,128	1,128
Disposal due to transfer to inventories or owner-occupied properties	–	(1,104)	(1,104)
Disposal due to transfer to held-for-sale properties	(137)	–	(137)
Other disposal	(945)	–	(945)
Reclassification	(1,128)	–	(1,128)
Disposal due to sale	(1,638)	–	(1,638)
Foreign currency translation difference	(498)	76	(422)
Closing balance	**42,082**	**8,805**	**50,887**

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

The applied depreciation and amortization keys for the year ended 31 December 2017 were the following:

Investment property	1%–5%
Investment property subject to operating lease	2.5%–46.2%

	Investment property	Investment property subject to operating lease	Total
Depreciation and amortization			
Balance as at 1 January	**4,031**	**1,377**	**5,408**
Charge for the period	518	263	781
Additions due to transfer from inventories or owner-occupied properties	18	–	18
Other increase for the period	1,157	253	1,410
Disposal due to transfer to inventories or owner-occupied properties	(107)	(30)	(137)
Other disposal for the period	(62)	–	(62)
Foreign currency translation difference	(10)	14	4
Closing balance	**5,545**	**1,877**	**7,422**
Impairment			
Balance as at 1 January	**8,491**	**1,502**	**9,993**
Impairment for the period	54	244	298
Release of impairment for the period	(369)	–	(369)
Use of impairment	(1,789)	–	(1,789)
Foreign currency translation difference	(71)	18	(53)
Closing balance	**6,316**	**1,764**	**8,080**
Carrying values			
Balance as at 1 January	**24,748**	**4,698**	**29,446**
Balance as at 31 December	**30,221**	**5,164**	**35,385**
Fair values	**33,553**	**6,705**	**40,258**
Income and expenses			
Rental income	1,554	484	2,038
Direct operating expenses of investment properties – income generating	76	28	104
Direct operating expenses of investment properties – non income generating	8	–	8

For the year ended 31 December 2016:

	Investment property	Investment property subject to operating lease	Total
Gross value			
Balance as at 1 January	**37,139**	**7,605**	**44,744**
Additions due to receiving from debtors for the receivables	1,951	–	1,951
Increase due to transfer from inventories or owner-occupied properties	286	–	286
Increase from purchase	54	130	184
Other additions	137	35	172
Disposal due to transfer to inventories or owner-occupied properties	(34)	–	(34)
Disposals due to transfer into the properties classified as held for sale	(959)	–	(959)
Other disposals	(858)	(218)	(1,076)
Foreign currency translation difference	(446)	25	(421)
Closing balance	**37,270**	**7,577**	**44,847**

The applied depreciation and amortization keys for the year ended 31 December 2016 were the following:

Investment property	1%–10%
Investment property subject to operating lease	1.82%–18.18%

	Investment property	Investment property subject to operating lease	Total
Depreciation and amortization			
Balance as at 1 January	**3,719**	**1,216**	**4,935**
Charge for the period	362	165	527
Increase due to transfer from inventories or owner-occupied properties	24	–	24
Disposal due to transfer to inventories or owner-occupied properties	(5)	–	(5)
Other disposals	(43)	(7)	(50)
Foreign currency translation difference	(26)	3	(23)
Closing balance	**4,031**	**1,377**	**5,408**
Impairment			
Balance as at 1 January	**7,965**	**1,525**	**9,490**
Impairment for the period	923	–	923
Release of impairment	(90)	–	(90)
Use of impairment	(223)	(29)	(252)
Foreign currency translation difference	(84)	6	(78)
Closing balance	**8,491**	**1,502**	**9,993**
Carrying values			
Balance as at 1 January	**25,455**	**4,864**	**30,319**
Balance as at 31 December	**24,748**	**4,698**	**29,446**
Fair values	**27,806**	**5,641**	**33,447**
Income and expenses			
Rental income	1,792	440	2,232
Direct operating expenses of investment properties – income generating	214	6	220
Direct operating expenses of investment properties – non income generating	16	–	16

NOTE 13: OTHER ASSETS* (in HUF mn)

	2017	2016 (restated)	2015 (restated)
Inventories	60,998	53,772	46,195
Prepayments and accrued income	32,674	33,118	25,136
Receivables from card operations	29,982	16,572	7,865
Assets subject to operating lease	27,798	21,405	17,026
Trade receivables	10.710	11,369	10,891
Other advances	10,623	9,588	7,083
Receivables due from pension funds and investment funds	6,574	5,610	2,516
Giro clearing accounts	5,699	2,389	8,200
Due from Hungarian Government from interest subsidies	4,170	4,273	1,197
Receivables from investment services	3,273	4,244	6,369
Receivable from the National Asset Management	3,130	6,967	6,645
Settlement and suspense accounts	2,330	1,442	2,090
Receivables from leasing activities	2,096	1,616	1,470
Stock exchange deals	1,664	2,827	2,163
Advances for securities and investments	658	666	663
Loans sold under deferred payment scheme	137	2,276	2,410
Other receivables from Hungarian Government	115	4,292	1,233
Other	23,646	31,514	27,488
Subtotal	**226,277**	**213,940**	**176,640**
Provision for impairment on other assets**	(28,595)	(28,073)	(27,992)
	197,682	**185,867**	**148,648**
Fair value of derivative financial instruments designated as fair value hedge	10,277	7,887	16,009
Deferred tax assets***	29,419	52,593	73,079
Current income tax receivable	14,281	11,679	20,492
Subtotal	**53,977**	**72,159**	**109,580**
Total	**251,659**	**258,026**	**258,228**

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

** Provision for impairment on inventories and on real estate held-for-sale was recognized the most impairment among the Provision for impairment on other assets.

*** See Note 27.

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

	2017	2016
Interest rate swaps designated as fair value hedge	6,639	6,888
CCIRS and mark-to-market CCIRS designated as fair value hedge	3,638	998
Other transactions designated as fair value hedge	–	1
Total	**10,277**	**7,887**

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

	2017	2016
Balance as at 1 January	**28,073**	**27,992**
Provision for the period	5,674	1,476
Reclassification	1,677	–
Use of provision	(6,599)	(1,569)
Foreign currency translation difference	(230)	174
Closing balance	**28,595**	**28,073**

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

	2017	2016
Within one year:		
In HUF	80,188	129,739
In foreign currency	115,852	126,361
	196,040	**256,100**
Over one year:		
In HUF	187,062	223,415
In foreign currency	87,988	63,720
	275,050	**287,135**
Accrued interest	978	540
Total*	**472,068**	**543,775**

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

	2017	2016
Within one year:		
In HUF	(18.0)%–0.9%	0.0%–0.9%
In foreign currency	(0.6)%–7.2%	(0.4)%–10.5%
Over one year:		
In HUF	0.0%–3.8%	0.0%–3.8%
In foreign currency	(0.27)%–16.3%	(0.06)%–10.85%
Average interest rates on amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks denominated in HUF	1.90%	1.41%
Average interest rates on amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks denominated in foreign currency	1.79%	1.55%

* It contains loans lent among the frame of Funding for Growth Scheme, which are accounted as government grant regulated by IAS 20 standard. See more details in Note 45.

NOTE 15: DEPOSITS FROM CUSTOMERS (in HUF mn)

	2017	2016
Within one year:		
In HUF	4,314,972	3,725,744
In foreign currency	5,568,663	4,413,976
	9,883,635	**8,139,720**
Over one year:		
In HUF	215,869	308,199
In foreign currency	119,292	77,020
	335,161	**385,219**
Accrued interest	14,675	15,644
Total	**10,233,471**	**8,540,583**

Interest rates on deposits from customers are as follows:

	2017	2016
Within one year:		
In HUF	(5.0)%–9.69%	0.0%–9.65%
In foreign currency	(0.4)%–30.0%	0.0%–20.5%
Over one year:		
In HUF	0.0%–10.10%	0.0%–9.65%
In foreign currency	0.0%–16.0%	0.0%–22.0%
Average interest rates on deposits from customers denominated in HUF	0.18%	0.43%
Average interest rates on deposits from customers denominated in foreign currency	0.80%	1.08%

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

	2017		2016	
Retail deposits	7,248,879	71%	6,112,174	72%
Corporate deposits	2,345,128	23%	1,946,298	23%
Municipality deposits	624,789	6%	466,467	5%
Total	**10,218,796**	**100%**	**8,524,939**	**100%**

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

	2017	2016
With original maturity		
Within one year:		
In HUF	12,098	18,498
In foreign currency	7,064	37,348
	19,162	**55,846**
Over one year:		
In HUF	228,015	88,640
In foreign currency	310	251
	228,325	**88,891**
Accrued interest	2,833	2,163
Total	**250,320**	**146,900**

Interest rates on liabilities from issued securities are as follows:

	2017	2016
Issued securities denominated in HUF	0.2%–9.48%	0.01%–9.5%
Issued securities denominated in foreign currency	0.0%–8.1%	0.1%–9.0%
Average interest rates on issued securities denominated in HUF	3.23%	3.10%
Average interest rates on issued securities denominated in foreign currency	0.55%	1.07%

Issued securities denominated in HUF as at 31 December 2017:

	Name	Date of issue	Maturity	Nominal value (in HUF mn)	Interest conditions (in % p.a.)		Hedged
1	OTP 2018/Ax	03/01/2012	09/01/2018	391	indexed	floating	hedged
2	OTP 2018/Bx	22/03/2012	22/03/2018	3,488	indexed	floating	hedged
3	OTP 2018/Cx	18/07/2012	18/07/2018	2,948	indexed	floating	hedged
4	OTP 2018/Dx	29/10/2012	26/10/2018	2,543	indexed	floating	hedged
5	OTP 2018/Ex	28/12/2012	28/12/2018	2,502	indexed	floating	hedged
6	OTP 2019/Ax	25/06/2009	01/07/2019	231	indexed	floating	hedged
7	OTP 2019/Bx	05/10/2009	14/10/2019	313	indexed	floating	hedged
8	OTP 2019/Cx	14/12/2009	20/12/2019	268	indexed	floating	hedged
9	OTP 2019/Dx	22/03/2013	21/03/2019	3,685	indexed	floating	hedged
10	OTP 2019/Ex	28/06/2013	24/06/2019	2,916	indexed	floating	hedged
11	OTP 2020/Ax	25/03/2010	30/03/2020	301	indexed	floating	hedged
12	OTP 2020/Bx	28/06/2010	09/07/2020	290	indexed	floating	hedged
13	OTP 2020/Cx	11/11/2010	05/11/2020	176	indexed	floating	hedged
14	OTP 2020/Dx	16/12/2010	18/12/2020	177	indexed	floating	hedged
15	OTP 2020/Ex	18/06/2014	22/06/2020	3,524	indexed	floating	hedged
16	OTP 2020/Fx	10/10/2014	16/10/2020	3,093	indexed	floating	hedged
17	OTP 2020/Gx	15/12/2014	21/12/2020	2,627	indexed	floating	hedged
18	OTP 2021/Ax	01/04/2011	01/04/2021	250	indexed	floating	hedged
19	OTP 2021/Bx	17/06/2011	21/06/2021	274	indexed	floating	hedged
20	OTP 2021/Cx	19/09/2011	24/09/2021	266	indexed	floating	hedged
21	OTP 2021/Dx	21/12/2011	27/12/2021	310	indexed	floating	hedged
22	OTP 2022/Ax	22/03/2012	23/03/2022	252	indexed	floating	hedged
23	OTP 2022/Bx	18/07/2012	18/07/2022	215	indexed	floating	hedged
24	OTP 2022/Cx	29/10/2012	28/10/2022	237	indexed	floating	hedged
25	OTP 2022/Dx	28/12/2012	27/12/2022	297	indexed	floating	hedged
26	OTP 2023/Ax	22/03/2013	24/03/2023	363	indexed	floating	hedged
27	OTP 2023/Bx	28/06/2013	26/06/2023	240	indexed	floating	hedged
28	OTP 2024/Ax	18/06/2014	21/06/2024	256	indexed	floating	hedged
29	OTP 2024/Bx	10/10/2014	16/10/2024	339	indexed	floating	hedged
30	OTP 2024/Cx	15/12/2014	20/12/2024	287	indexed	floating	hedged
31	OTP 2020/RF/A	12/07/2010	20/07/2020	1,975	indexed	floating	hedged
32	OTP 2020/RF/B	12/07/2010	20/07/2020	1,131	indexed	floating	hedged
33	OTP 2020/RF/C	11/11/2010	05/11/2020	2,353	indexed	floating	hedged
34	OTP 2021/RF/A	05/07/2011	13/07/2021	2,199	indexed	floating	hedged
35	OTP 2021/RF/B	20/10/2011	25/10/2021	2,324	indexed	floating	hedged
36	OTP 2021/RF/C	21/12/2011	30/12/2021	424	indexed	floating	hedged
37	OTP 2021/RF/D	21/12/2011	30/12/2021	292	indexed	floating	hedged
38	OTP 2021/RF/E	21/12/2011	30/12/2021	48	indexed	floating	hedged
39	OTP 2022/RF/A	22/03/2012	23/03/2022	1,593	indexed	floating	hedged
40	OTP 2022/RF/B	22/03/2012	23/03/2022	538	indexed	floating	hedged
41	OTP 2022/RF/C	28/06/2012	28/06/2022	146	indexed	floating	hedged
42	OTP 2022/RF/D	28/06/2012	28/06/2022	194	indexed	floating	hedged
43	OTP 2022/RF/E	29/10/2012	31/10/2022	521	indexed	floating	hedged
44	OTP 2022/RF/F	28/12/2012	28/12/2022	403	indexed	floating	hedged
45	OTP 2023/RF/A	22/03/2013	24/03/2023	553	indexed	floating	hedged
46	OJB 2019/I	17/03/2004	18/03/2019	31,517	9.48	fixed	
47	OJB 2019/II	31/05/2011	18/03/2019	1,093	9.48	fixed	
48	OJB 2020/I	19/11/2004	12/11/2020	5,503	9.0	fixed	
49	OJB 2020/II	31/05/2011	12/11/2020	1,487	9.0	fixed	
50	OJB 2020/III	23/02/2017	20/05/2020	32,418	0.63	floating	
51	OJB 2021/I	25/02/2017	27/10/2021	96,750	2.0	fixed	
52	OJB 2022/I	24/02/2017	24/05/2022	20,911	0.78	floating	
53	Other			226			
	Subtotal issued securities in HUF			**237,658**			
	Unamortized premium			(2,202)			
	Fair value adjustment			4,657			
	Total issued securities in HUF			**240,113**			

Issued securities denominated in foreign currency as at 31 December 2017:

	Name	Date of issue	Maturity	Type of FX	Nominal value (FX mn)	Nominal value (HUF mn)	Interest conditions (in % p.a.)		Hedged
1	OTP 2018/Fx	19/12/2013	21/12/2018	EUR	0.62	192	indexed		hedged
2	OTP_VK_USD_1_2018/I	20/01/2017	20/01/2018	USD	2.78	721	1.46	floating	
3	OTP_VK_USD_1_2018/II	03/03/2017	03/03/2018	USD	4.25	1,099	1.45	floating	
4	OTP_VK_USD_1_2018/III	13/04/2017	13/04/2018	USD	2.48	641	1.53	floating	
5	OTP_VK_USD_1_2018/IV	02/06/2017	02/06/2018	USD	4.18	1,082	1.67	floating	
6	OTP_VK_USD_1_2018/V	14/07/2017	14/07/2018	USD	2.24	579	1.0	floating	
7	OTP_VK_USD_1_2018/VI	04/08/2017	04/08/2018	USD	0.69	179	1.0	floating	
8	OTP_VK_USD_1_2018/VII	29/09/2017	29/09/2018	USD	4.49	1,162	1.0	floating	
9	OTP_VK_USD_1_2018/VIII	17/11/2017	17/11/2018	USD	3.04	788	1.0	floating	
10	OTP_VK_USD_1_2018/IX	20/12/2017	20/12/2018	USD	1.45	376	1.0	floating	
11	Other*					560			
	Subtotal issued securities in FX					**7,379**			
	Unamortized premium					(6)			
	Fair value adjustment					1			
	Total issued securities in FX					**7,374**			
	Accrued interest					**2,833**			
	Total issued securities					**250,320**			

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 2016/2017

On 5 July 2016 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 3 August 2016 the prospectus of Term Note Program and the disclosure as at 10 August 2016. 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 and Bulgarian Stock Exchange without any obligations.

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.

* Other category includes promissory notes issued by OTP Banka Slovensko a.s. in the amount of HUF 203 million and by JSC "OTP Bank" (Russia) in the amount of HUF 357 million.

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

Negative fair value of derivative financial instruments classified as held for trading by type of contracts:

	2017	2016
Interest rate swaps classified as held for trading	30,453	33,012
Foreign exchange swaps classified as held for trading	14,745	13,125
CCIRS and mark-to-market CCIRS classified as held for trading	12,948	15,684
Foreign exchange forward contracts classified as held for trading	6,731	5,941
Option contracts classified as held for trading	2,675	3,081
Forward security agreements classified as held for trading	3	4
Forward rate agreements classified as held for trading (FRA)	–	38
Other transactions classified as held for trading	2,319	4,986
Total	**69,874**	**75,871**

NOTE 18: OTHER LIABILITIES* (in HUF mn)

	2017	2016 (restated)	2015 (restated)
Provision on off-balance sheet commitments and contingent liabilities	81,710	48,166	31,685
Liabilities from investment services	52,569	72,102	39,413
Accrued expenses	39,934	39,885	33,153
Liabilities connected to Cafeteria benefits	35,028	31,194	27,811
Accounts payable	30,805	27,085	25,455
Salaries and social security payable	28,220	28,235	25,423
Liabilities from card transactions	25,213	12,837	5,804
Clearing, settlement and suspense accounts	19,030	9,269	12,065
Giro clearing accounts	12,096	7,153	11,302
Liabilities due to refunding assets	11,101	14,136	–
Advances received from customers	8,274	6,429	4,271
Liabilities related to housing loans	7,819	6,496	1,523
Liabilities due to short positions	5,221	21,552	7,453
Insurance technical reserve	3,816	–	–
Loans from government	900	716	683
Liabilities connected to loans for collection	766	814	876
Provision for expected losses due to CHF loans conversion at foreign subsidiaries	147	6,402	39,314
Dividend payable	83	73	546
Liabilities connected to leasing activities	31	18	1,583
Other	40,846	30,876	24,159
Subtotal	**403,609**	**363,438**	**292,519**
Accrued interest	659	1,065	257
	404,268	**364,503**	**292,776**
Fair value of derivative financial instruments designated as fair value hedge	17,199	20,002	13,723
Deferred tax liabilities**	9,271	3,234	4,610
Current income tax payable	17,674	16,066	13,684
Subtotal	**44,144**	**39,302**	**32,017**
Total	**448,412**	**403,805**	**324,793**

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

** See Note 27.

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

	2017	2016
Provision for litigation	24,988	15,067
Provision for losses on other off-balance sheet commitments and contingent liabilities related to lending	20,300	13,585
Provision for expected pension commitments	15,031	2,678
Provision for expected losses due to CHF loans conversion at foreign subsidiaries	147	6,402
Provision for other liabilities	21,391	16,836
Total	**81,857**	**54,568**

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

	2017	2016
Balance as at 1 January	**54,568**	**70,999**
Change due to acquisition	12,846	–
Provision for the period	57.847	33.922
Release of provision for the period	(41.890)	(49.190)
Use of provision	(1,036)	(1,045)
Foreign currency translation differences	(478)	(118)
Closing balance	**81,857**	**54,568**

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

	2017	2016
Interest rate swaps designated as fair value hedge	17,199	19,976
CCIRS and mark-to-market CCIRS designated as fair value hedge	–	26
Total	**17,199**	**20,002**

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

	2017	2016
Within one year:		
In HUF	–	–
In foreign currency	–	–
	–	**–**
Over one year:		
In HUF	–	–
In foreign currency	75,696	76,946
	75,696	**76,946**
Accrued interest	332	512
Total	**76,028**	**77,458**

Interest rates on subordinated bonds and loans are as follows:

	2017	2016
Denominated in foreign currency	2.67%	2.69%
Average interest rates on subordinated bonds and loans	2.88%	7.06%

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 2017
Subordinated bond	EUR 244.5 million	07/11/2006	Perpetual	99.375%	Three-month EURIBOR + 3%, variable after year 10 (payable quarterly)	2.671%

NOTE 20: SHARE CAPITAL (in HUF mn)

	2017	2016
Authorized, issued and fully paid:		
Ordinary shares	28,000	28,000

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

These Consolidated Financial Statements are subject to approval by the Shareholders in the Annual General Meeting in April 2018. In 2017 the Bank paid dividends of HUF 53,200 million from the profit of the year 2016, which meant HUF 190 dividend per share payable to the shareholders. In 2018 dividends of HUF 61,320 million are expected to be proposed by the Management from the profit of the year 2017, which means HUF 219 dividend per share payable to the shareholders.

The retained earnings and reserves according to IFRS contains the retained earnings (HUF 523,019 million and HUF 514,417 million) and reserves (HUF 867,718 million and HUF 732,851 million) as at 31 December 2017 and 31 December 2016 respectively. The reserves include mainly the fair value adjustment of securities available-for-sale, additional reserves of Income Certificates Exchangeable for Shares ("ICES"), changes in equity accumulated in the previous year (mainly profit or loss) at the subsidiaries and 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 161,660 million and HUF 141,156 million as at 31 December 2017 and 2016 respectively.

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.

* See more details about the Consolidated statement of Comprehensive Income on page 99.

NOTE 22: TREASURY SHARES (in HUF mn)

	2017	2016
Nominal value (Ordinary shares)	1,827	1,822
Carrying value at acquisition cost	63,289	60,121

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	2017	2016
Number of shares as at 1 January	**18,216,002**	**18,142,973**
Additions	1,441,203	1,750,152
Disposals	(1,383,195)	(1,677,123)
Closing number of shares	**18,274,010**	**18,216,002**

Change in carrying value	2017	2016
Balance as at 1 January	**60,121**	**58,021**
Additions	13,510	11,982
Disposals	(10,342)	(9,882)
Closing balance	**63,289**	**60,121**

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

	2017	2016
Balance as at 1 January	**3,292**	**2,651**
Non-controlling interest included in net profit for the period	197	242
Changes due to ownership structure	110	(8)
Foreign currency translation difference	(134)	407
Closing balance	**3,465**	**3,292**

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

	2017	2016
Provision for impairment on loan losses		
Provision for the period	355,929	419,801
Release of provision	(353,136)	(358,545)
Loan losses due to write-off and sale	37,827	32,349
	40,620	**93,605**
Provision/(Release of provision) on placement losses		
Provision for the period	53	46
Release of provision	(77)	–
Losses/(Gains) on placements due to write-off and sale	252	(178)
	228	**(132)**
Provision for impairment on loan and placement losses	**40,848**	**93,473**

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

Income from fees and commissions:

	2017	2016
Deposit and account maintenance fees and commissions	126,280	114,404
Fees and commissions related to the issued bank cards	53,093	43,963
Fees related to cash withdrawal	31,189	27,920
Fees and commissions related to lending*	26,168	20,715
Fees and commissions related to security trading	25,005	20,329
Fees and commissions related to fund management	22,517	18,865
Insurance fee income	11,391	5,913
Other	19,963	20,126
Total	**315,606**	**272,235**

Expense from fees and commissions:

	2017	2016
Fees and commissions related to issued bank cards	17,119	15,093
Interchange fees	9,114	7,421
Fees and commissions paid on loans	6,951	9,641
Fees and commissions related to deposits	4,603	3,449
Insurance fees	3,116	177
Fees and commissions related to security trading	2,609	1,736
Cash withdrawal transaction fees	1,557	1,430
Fees and commissions related to collection of loans	869	959
Postal fees	860	889
Money market transaction fees and commissions	383	128
Other	7,232	8,321
Total	**54,413**	**49,244**
Net profit from fees and commissions	**261,193**	**222,991**

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

Other operating income	2017	2016
Negative goodwill due to acquisition	32,221	–
Gains on sale of receivables	6,899	7,743
Gains on transactions related to property activities	2,093	1,923
Gains on transactions related to insurance activity	409	–
Fine refund by Hungarian Competition Authority	–	3,960
Other income from non-financial activities	23,847	6,002
Total	**65,469**	**19,628**

Other operating expenses	2017	2016
Provision for off-balance sheet commitments and contingent liabilities	16,011	18,034
Provision for impairment on other assets	7,796	2,249
Financial support for sport association and organization of public utility	7,331	8,731
Non-repayable assets contributed	4,165	4,400
Provision/(Release of provision) for assets subject to operating lease	417	(31)
Provision for impairment on investments	184	687
Fine imposed by Competition Authority	18	67
Expenses from losses due to foreign currency loan conversion at foreign subsidiaries	–	27,438
Incomes from regulations related to customer loans	–	(5)
Release of provision for expected losses due to foreign currency loan conversion at foreign subsidiaries	(54)	(33,302)
(Release of provision)/Provision on investment properties	(71)	833
Other	15,443	7,360
Total	**51,240**	**36,461**

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

** See details in Note 9.

Other administrative expenses	2017	2016
Personnel expenses		
Wages	160,262	138,785
Taxes related to personnel expenses	37,645	37,005
Other personnel expenses	15,979	15,652
Subtotal	**213,886**	**191,442**
Depreciation and amortization*	**49,492**	**44,427**

Other administrative expenses	2017	2016
Taxes, other than income tax**	80,550	92,380
Services	56,769	45,551
Administration expenses	34,108	29,785
Professional fees	28,122	22,823
Advertising	18,299	13,809
Rental fees	18,224	15,881
Subtotal	**236,072**	**220,229**
Total	**499,450**	**456,098**

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:

	2017	2016
Current tax expense	16,093	12,562
Deferred tax expense	25,410	21,381
Total	**41,503**	**33,943**

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

	2017	2016
Balance as at 1 January	**49,359**	**68,469**
Deferred tax expense in profit or loss	(25,410)	(21,381)
Deferred tax related to items recognized directly in equity and in Comprehensive Income	(1,947)	1,406
Due to acquisition of subsidiary	(800)	–
Foreign currency translation difference	(1,054)	865
Closing balance	**20,148**	**49,359**

* See details in Note 11.

** Special tax of financial institutions was paid by the Group in the amount of HUF 9,509 million and HUF 15,400 million for the year 2017 and 2016 respectively, recognized as an expense thus decreased the corporate tax base. In the year ended 31 December 2017 financial transaction duty was paid by the Bank in the amount of HUF 50,449 million.

A breakdown of the deferred tax assets are as follows:

	2017	2016
Unused tax allowance	11,489	22,354
Tax accrual caused by negative taxable income	7,307	20,494
Fair value adjustment of securities held for trading and securities available-for-sale	3,608	3,737
Premium and discount amortization on bonds	3,555	3,604
Refundable tax in accordance with Acts on Customer Loans	2,294	5,239
Adjustment from effective interest rate method	1,660	112
Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments	1,607	1,497
Provision for impairment on investments (Goodwill)	1,268	2,535
Fair value adjustment of derivative financial instruments	303	98
One-off effect of certain OTP Group entities transition to IFRS	252	–
Difference in depreciation and amortization	139	27
Difference in accounting for leases	–	50
Repurchase agreement and security lending	–	1,964
Difference in reserves under HAS and IFRS	–	1,012
Fair value corrections related to customer loans	–	28
Other	14,090	12,555
Deferred tax asset	**47,572**	**75,306**

A breakdown of the deferred tax liabilities are as follows:

	2017	2016
Fair value adjustment of securities held for trading and securities available-for-sale	(10,168)	(9,414)
Difference in depreciation and amortization	(5,089)	(2,448)
Deferred tax due to acquisition	(4,608)	–
One-off effect of certain OTP Group entities transition to IFRS	(2,024)	–
Fair value adjustment of derivative financial instruments	(1,195)	(3,929)
Temporary differences arising on consolidation	(785)	(1,122)
Difference in accounting for leases	(769)	(152)
Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments	(406)	(406)
Adjustment from effective interest rate method	(176)	(909)
Premium and discount amortization on bonds	(3)	(2)
Provision for impairment on investments	–	(5,051)
Net effect of treasury share transactions	–	(625)
Accounting of equity instrument (ICES)	–	(438)
OTP–MOL transaction	–	(423)
Other	(2,201)	(1,028)
Deferred tax liabilities	**(27,424)**	**(25,947)**
Net deferred tax asset (net amount presented in the statement of financial positions)	**20,148**	**49,359**
Deferred tax assets	29,419	52,593
Deferred tax liabilities	9,271	3,234

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

	2017	2016
Profit before income tax	322,842	236,395
Income tax expense at statutory tax rates	37,561	37,123

Income tax adjustments due to permanent differences are as follows:

	2017	2016
Deferred use of tax allowance	10,492	(5,843)
Share-based payment	324	671
Differences in carrying value of subsidiaries	–	12,589
Effect of the tax rate change	–	3,356
Tax refund in accordance with Acts on Customer Loans	–	1,102
OTP-MOL share swap transaction	–	411
Reversal of statutory general provision	–	287
Treasury share transactions	–	(991)
One-off effect of certain OTP Group entities transition to IFRS	(4,485)	–
Use of tax allowance in the current year	(6,964)	(6,708)
Other	4,575	(8,054)
Income tax	**41,503**	**33,943**
Effective tax rate	**12.9%**	**14.4%**

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn)

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

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

28.1 Credit risk

The Group takes on exposure to credit risk which is the risk that a counter-party will be unable to pay amounts in full when due.

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

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

28.1.1 Analysis by loan types and by DPD categories

Classification into DPD categories

The Group presents the non-performing loan portfolio according delay of payment above 90 days past due. When determining the impairment beside the delay of payment other information available for the Group is also taken into consideration. The foreseeable risks and expected losses are considered, when the Group during determining the result of the current year, calculates and accounts impairment and credits provisions. The impairments and provisions are accounted notwithstanding whether the result recognized in the current year is gain or loss. The Group when calculating the impairment of the loans applies the requirement of IFRS and the principles defined in the impairment policy of the Group.

Exposures with small amounts are subject to **collective valuation** method, which is a simplified assessment. The exposures subject to collective valuation method are classified on the basis of past due days into three valuation

groups, so the loan exposure is presented below based on these three categories: 0–90 days past due; 91–360 days past due; above 360 days past due.
The Group intends – where a great number of items and sufficient long-term historical data is available – to apply models on statistical bases. The impairment is calculated according to the possibility of listing the loan into default categories examined on the basis of objective valuation criteria (delay of payment, change of exchange) and the expected recovery from the collecting. If the loss of the exposure can't be modelled reliably, the impairment is determined by expert keys.

Impairment on **claims above the limit** are under **individual assessment** method. Depending on the incurred loss of each item is determined based on the consideration of all of the following criteria:

- the credit rating of the customer or the partner: the financial position, stability and income-generating capacity affected by the financial or investment service and issuer of the security, and any changes thereto;
- compliance with the rules of repayment (delay): delays in the repayment of the loan principal and its interests, regularity of the fulfillment of payment obligations;
- the status of the restructuring (renegotiating) of risk taking contracts;
- the country risk relating to the customer (both political and transfer risks) and any changes thereto;
- the value of collaterals, their liquidity and accessibility, and any changes therein;
- the transferability and liquidity of the exposures (the market conditions of supply and demand, the available market prices and participation in the shareholders' equity of the issuer in proportion to the investment);
- the future payment obligation recognized as a loss arising from the exposure.

The expected future losses of the individually assessed item are determined by taking into considerations the above listed objective valuation aspects. The expected loss, the volume of the necessary reserve is defined by taking into account the value of the collaterals and comparing that with the value of the collaterals relating to the exposure.
The expected recovery is calculated by applying the effective interest rate method and the discounted cash-flow method. The impairment preciously accounted for the item before should be completed to this level by increasing the amount of the impairment or by releasing the impairment as appropriate.

An analysis of the gross loan portfolio by loan types and DPD categories is as follows:

As at 31 December 2017:

Loan type	Up to 90 days	91–360 days	Above 360 days	Total carrying amount/allowance
Mortgage loans	2,181,804	34,926	239,623	2,456,353
Loans to medium and large corporates	2,203,595	29,971	130,031	2,363,597
Consumer loans	1,675,346	44,165	168,116	1,887,627
Loans to micro and small enterprises	475,462	6,938	65,043	547,443
Car-finance loans	252,773	2,606	15,990	271,369
Municipal loans	199,809	–	274	200,083
Gross portfolio	**6,988,789**	**118,606**	**619,077**	**7,726,472**
Placement with other banks	462,065	–	21	462,086
Bill of exchange	113	–	45	158
Total gross portfolio	**7,450,967**	**118,606**	**619,143**	**8,188,716**
Allowance for loans	(179,824)	(70,318)	(488,654)	(738,796)
Allowance for placements	(47)	–	(21)	(68)
Total allowance	**(179,871)**	**(70,318)**	**(488,675)**	**(738,864)**
Total net portfolio	**7,271,096**	**48,288**	**130,468**	**7,449,852**
Accrued interest for placements				**162**
Total net loans				6,987,834
Total net placements				462,180
Total net exposures				**7,450,014**

As at 31 December 2016:

Loan type	Up to 90 days	91–360 days	Above 360 days	Total carrying amount/allowance
Mortgage loans	2,001,701	63,457	292,456	2,357,614
Loans to medium and large corporates	1,688,808	33,276	222,227	1,944,311
Consumer loans	1,292,146	51,274	177,056	1,520,476
Loans to micro and small enterprises	425,652	8,421	86,076	520,149
Car-finance loans	178,133	4,567	34,752	217,452
Municipal loans	73,707	139	16	73,862
Gross portfolio	**5,660,147**	**161,134**	**812,583**	**6,633,864**
Placement with other banks	363,441	–	23	363,464
Bill of exchange	5,890	–	–	5,890
Total gross portfolio	**6,029,478**	**161,134**	**812,606**	**7,003,218**
Allowance for loans	(174,304)	(87,777)	(682,192)	(944,273)
Allowance for placements	(72)	–	(23)	(95)
Total allowance	**(174,376)**	**(87,777)**	**(682,215)**	**(944,368)**
Total net portfolio	**5,855,102**	**73,357**	**130,391**	**6,058,850**
Accrued interest				
for loans				40,751
for placements				161
Total accrued interest				**40,912**
Total net loans				5,736,232
Total net placements				363,530
Total net exposures				**6,099,762**

The Group's loan portfolio increased by 16.93% in the year ended 31 December 2017. Analysing the contribution of loan types to the loan portfolio, the share of the mortgage loan types slightly decreased, the consumer and municipal loans slightly increased, while the other types of loans remained almost the same as at 31 December 2017 comparing with end of the previous year. The qualification of the loan portfolio is improving continuously started from the last few years, and now for the end of the year 2017 the ratio of the more than 90 days past due to the above 360 days past due loans compared to the gross loan portfolio decreased from 13.9% to 9.01%. Among the qualified loan portfolio, the loans classified to the risk class of "more than 90 until 360 days past due" narrowed at the fastest level.

The Group has a prudent provisioning policy, the indicator which describes the coverage of loans by provision for impairment on loans classified as "Above 360 days" was 78.9% and 83.9% as at 31 December 2017 and 2016 respectively.

Not impaired loan portfolio

That part of loan portfolio, which are neither past due nor impaired, doesn't indicate any lowering of credit quality.

The loan portfolio analysis of the gross values of the loans that are not impaired, not past due and past due is as follows:

As at 31 December 2017:

Loan type	Not past due	Up to 90 days	91–360 days	Above 360 days	Total
Mortgage loans	1,879,895	264,133	785	1,231	2,146,044
Loans to medium and large corporates	1,938,540	86,016	3016	30	2,027,602
Consumer loans	1,491,157	154,351	485	13	1,646,006
Placement with other banks	462,065	–	–	–	462,065
Loans to micro and small enterprises	405,520	52,511	33	144	458,208
Car-finance loans	210,574	33,778	36	–	244,388
Municipal loans	197,607	2,001	–	268	199,876
Total	**6,585,358**	**592,790**	**4,355**	**1,686**	**7,184,189**

As at 31 December 2016:

Loan type	Not past due	Up to 90 days	91–360 days	Above 360 days	Total
Mortgage loans	1,712,019	257,440	1,301	2,681	1,973,441
Loans to medium and large corporates	1,419,308	68,528	144	179	1,488,159
Consumer loans	1,134,805	133,335	44	106	1,268,290
Placement with other banks	363,440	–	–	–	363,440
Loans to micro and small enterprises	367,396	40,727	15	131	408,269
Municipal loans	71,745	908	129	–	72,782
Car-finance loans	146,633	19,854	–	–	166,487
Total	**5,215,346**	**520,792**	**1,633**	**3,097**	**5,740,868**

Loans not past due or past due, but not impaired cover only balance sheet items. The ratio of the gross value of the loans neither past due nor impaired compared to the whole portfolio increased from 74.5% to 80.4% as at 31 December 2017 comparing to the end of the previous year. The ratio of the mortgage loans compared to the portfolio of loans neither past due nor impaired decreased slightly in the year ended 31 December 2017, and in the same slight ratio, but increased the ratio of the loans to medium and large corporates and municipal loans.

The loans that are past due but not impaired are concentrated mainly in the mortgage loan and consumer loan type while in the other loan types the low level of loans past due but not impaired is a consequence of the prudent provisioning policy of the Group. The ratio of the mortgage loans compared to the portfolio of loans past due but not impaired decreased slightly while the ratio of loans to medium and large corporates and the loans to micro and small enterprises increased as at 31 December 2017.

Loans individually assessed for provision

The individually rated exposures contain both the loans and the off-balance sheet commitments. The rating has been performed based on the factors used at determining the provision for impairment for them.

An analysis of financial assets that are individually determined to be impaired, the factors taken into consideration at the assessment, the provision for impairment for them and the collaterals considered is as follows:

As at 31 December 2017:

Considered factors	Carrying value	Allowance for impairment	Collateral value	Off-balance sheet commitments	Provision for off-balance sheet commitments
Delay of payment	224,645	88,099	71,942	2,893	29
Legal proceedings	76,976	56,901	37,048	275	132
Cross default	35,344	15,028	13,562	4,719	20
Other	197,620	81,329	92,767	10,667	1,194
Corporate total	**534,585**	**241,357**	**215,319**	**18,554**	**1,375**
Delay of payment	5,532	65	775	–	–
Municipal total	**5,532**	**65**	**775**	**–**	**–**
Placements with other banks	**62**	**1**	**–**	**93**	**1**
Total	**540,179**	**241,423**	**216,094**	**18,647**	**1,376**

As at 31 December 2016:

Considered factors	Carrying value	Allowance for impairment	Collateral value	Off-balance sheet commitments	Provision for off-balance sheet commitments
Delay of payment	182,668	116,988	106,145	108	1
Legal proceedings	174,355	138,794	44,157	60	54
Cross default	63,976	19,156	19,602	16,536	24
Other	176,367	79,317	101,621	10,370	1,197
Corporate total	**597,366**	**354,255**	**271,525**	**27,074**	**1,276**
Delay of payment	2,109	644	2,339	31	9
Legal proceedings	470	333	165	–	–
Cross default	52	1	–	–	–
Municipal total	**2,631**	**978**	**2,504**	**31**	**9**
Placements with other banks	**–**	**–**	**–**	**–**	**–**
Total	**599,997**	**355,233**	**274,029**	**27,105**	**1,285**

By 31 December 2017 the volume of the individually rated portfolio decreased by 10.5% in the corporate loan type. Among the rating factors of the corporate loan type, the decrease is mostly based on the improvement of the cross default factor and on the softening of the legal proceedings, while increase is based on the delay of payment as at 31 December 2017. Slight increase was in the individually rated loans in the municipal loan portfolio comparing with the end of the previous year.

Loan portfolio by countries

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

	2017		2016	
Country	**Carrying amount of gross loan and placement with other banks portfolio**	**Allowance**	**Carrying amount of gross loan and placement with other banks portfolio**	**Allowance**
Hungary	2,988,753	177,834	2,885,068	270,618
Bulgaria	1,280,915	123,673	1,221,790	144,240
Croatia	1,252,800	64,521	537,287	50,694
Russia	588,153	115,064	601,571	116,850
Romania	536,597	42,197	539,665	37,666
Slovakia	382,567	31,563	382,351	30,799
Serbia	355,214	23,248	132,045	26,418
Ukraine	294,181	95,493	394,273	190,378
Montenegro	146,724	43,453	147,313	54,360
United Kingdom	64,151	873	54,405	1,131
Germany	54,110	108	31,237	125
Cyprus	41,577	14,117	30,935	14,973
France	30,677	19	543	17
Austria	29,967	5,251	11,148	4
Czech Republic	13,167	14	3,992	8
Belgium	12,494	55	4,773	40
Italy	10,445	33	8,237	15
United States of America	10,157	22	13,931	32
Norway	8,194	21	2,575	1
Turkey	6,235	9	9,713	8
Spain	5,323	1	132	3
The Netherlands	4,968	143	1,984	97
Switzerland	4,522	2	1,919	5
Israel	4,453	1	13	1
Poland	2,553	21	3,089	13
Bosnia and Herzegovina	1,307	–	899	756
Luxembourg	697	–	27	–
Japan	623	–	232	–
Greece	455	53	257	30
Ireland	401	67	611	68
Sweden	371	15	427	10
Canada	250	807	1,856	–
Australia	155	–	6,111	–
Kazakhstan	130	57	178	72
Denmark	113	1	1,973	–
Egypt	88	6	87	6
Iceland	47	34	41	28
United Arab Emirates	23	16	205	22
Latvia	5	14	45	19
Seychelles	–	–	4,786	4,786
Other*	55,158	57	516	75
Total**	**8,188,720**	**738,863**	**7,038,240**	**944,368**

The loan portfolio decreased mostly in Ukraine, while increased in Serbia and Croatia however there were no significant changes in the other countries of Group members. Their stock of provision increased mostly in Croatia and Romania while decreased mostly in Ukraine and Hungary due to the slightly decreased loan portfolio in some countries but there were no significant movements in any of the other countries who are members of the Group.

* Other category in the year 2017 includes e.g.: Slovenia, Iran, Pakistan, Macedonia, Republic of South-Africa, Finland, Armenia, Lithuania, Hong Kong, Moldova, Tunisia, Jordan, Syria, Esthonia, Portugal, Brazil, India, Morocco, South-Korea.
** Without the amount of bill of exchange and with accrued interest receivable.

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	2017	2016
Mortgages	7,330,181	6,572,927
Assignments (revenue or other receivables)	409,486	445,756
Guarantees and warranties	297,574	324,415
Guarantees of state or organizations owned by state	173,824	73,225
Cash deposits	115,217	102,668
Securities	75,589	210,878
Other	949,143	806,961
Total	**9,351,014**	**8,536,830**

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	2017	2016
Mortgages	3,397,094	3,055,552
Assignments (revenue or other receivables)	340,365	343,305
Guarantees and warranties	180,680	198,468
Guarantees of state or organizations owned by state	155,615	62,449
Securities	48,622	169,716
Cash deposits	45,207	37,755
Other	550,817	486,732
Total	**4,718,400**	**4,353,977**

The coverage level of the loan portfolio (total collateral) decreased by 9.1%, as well as the coverage level to the extent of the exposures decreased by 5.1% as at 31 December 2017.

28.1.3 Restructured loans

	2017		2016	
	Gross portfolio	**Allowance**	**Gross portfolio**	**Allowance**
Loans to medium and large corporates*	65,242	21,183	93,931	32,187
Retail loans	55,673	12,885	64,815	14,686
Loans to micro and small enterprises	9,725	1,385	13,589	2,008
Municipal loans	153	2	19	–
Total	**130,793**	**35,455**	**172,354**	**48,881**

Restructured portfolio definition

Restructured portfolio for **retail business line** contains every loan which is relevant restructured and less than 91 days delinquent. Loan is considered as relevant restructured if:

- it was restructured in the last 12 months, or
- it was restructured more than 12 months ago, but the connected preferential period is not expired or expired in the last 12 months.

Hungarian FX mortgage loans in the fixed exchange rate scheme are not included. In case of loans that have been restructured more than once the last restructuring is considered.

* They include project and syndicated loans.

Restructured portfolio for **medium and large corporates/micro and small enterprises/ municipal business line** contains every loan which is relevant restructured and less than 91 days delinquent. Loan is considered as relevant restructured if:

- independently from the date of the restructuring the following restructuring tool was applied:
  - cancellation of principal outstanding (cancelled or partially cancelled principal receivables);
- it was restructured in the last 12 months or the loan was restructured more than 12 months ago, but the connected preferential period is not expired or expired in the last 12 months, and any of the following restructuring tools were applied:
  - cancellation of interest rate (final or temporary reduction of the interest margin, cancellation of due interest), or
  - restructuring of interest payments (postponement of the interest payment, capitalization of the interest), or
  - restructuring of principal repayment (partial or full postponement of repayment of a given instalment, rescheduling one or more instalments within the original term or with extension of the term simultaneously).

Other modifications of contract not mentioned above are not considered as restructuring (i.e. modifying the collateral structure, modification of the credit purpose).

In case of loans that have been restructured more than once the last restructuring is considered.

28.1.4 Financial instruments by rating categories*

Securities held for trading as at 31 December 2017:

	Aaa	A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2	Not rated	Total
Government bonds	1,025	–	4,719	–	–	32,621	64,313	162	10,732	–	113,572
Interest bearing treasury bills	–	–	–	–	–	–	93,806	–	–	–	93,806
Shares and investment bonds	–	76	24	26	24	17	26	–	26	10,950	11,169
Discounted Treasury bills	–	–	–	–	–	–	1,169	–	–	–	1,169
Other securities	–	–	–	–	–	–	19,452	4,724	8,086	2,369	34,631
Other non-interest bearing securities	–	–	–	–	–	–	286	–	–	962	1,248
Total	**1,025**	**76**	**4,743**	**26**	**24**	**32,638**	**179,052**	**4,886**	**18,844**	**14,281**	**255,595**
Accrued interest											3,668
Total											**259,263**

Securities available-for-sale as at 31 December 2017:

	A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2	Ba3	Caa2	Not rated	Total
Government bonds	–	31,595	5,937	15,811	126,739	1,243,319	56,439	157,934	48,638	6,177	11,076	1,703,665
Discounted Treasury bills	–	–	–	–	–	169,922	–	53,316	–	–	–	223,238
Corporate bonds	–	–	–	–	1,404	32,655	8,553	8,085	6,557	–	117,488	174,742
Other securities	–	–	–	–	–	–	–	–	–	–	545	545
Other non-interest bearing securities	3,317	–	–	–	–	948	–	–	–	–	45,888	50,153
Total	**3,317**	**31,595**	**5,937**	**15,811**	**128,143**	**1,446,844**	**64,992**	**219,335**	**55,195**	**6,177**	**174,997**	**2,152,343**
Accrued interest												22,745
Total												**2,175,088**

* Moody's ratings.

Securities held-to-maturity as at 31 December 2017:

	A2	Baa2	Baa3	B1	Caa2	Not rated	Total
Government bonds	22,187	4,261	1,196,265	26,075	40,895	947	1,290,630
Discounted Treasury bills	–	–	–	–	–	30	30
Corporate bonds	–	–	–	–	–	6	6
Total	**22,187**	**4,261**	**1,196,265**	**26,075**	**40,895**	**983**	**1,290,666**
Accrued interest							20,381
Total							**1,311,047**

28.2 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 36, 37 and 38, respectively.)

28.2.1 Market Risk sensitivity analysis

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

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

VaR methodologies are employed to calculate daily risk numbers include the historical and variance-covariance approach.
The diversification effect has not been validated among the various market risk types when capital calculation happens.

In addition to these two methodologies, Monte Carlo simulations are applied to the various portfolios on a monthly basis to determine potential future exposure.

The VaR of the trading portfolio can be summarized as follows:

Historical VaR (99%, one-day) by risk type	Average (in HUF mn)	
	2017	2016
Foreign exchange	300	237
Interest rate	191	724
Equity instruments	10	2
Diversification	–	(213)
Total VaR exposure	**501**	**750**

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 28.2.2, for interest rate risk in Note 28.2.3 and for equity price sensitivity analysis in Note 28.2.4.

28.2.2 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 2017. High portion of strategic positions is considered as effective hedge of the net investment in foreign subsidiaries – net investment hedge is applied at a Group level –, and so FX risk affects the Group's Comprehensive Income and not its earnings.

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

Probability	Effects to the Consolidated Statement of Profit or Loss in 3 months period (in HUF billion)	
	2017	2016
1%	(11.9)	(12.3)
5%	(8.1)	(8.4)
25%	(3.3)	(3.5)
50%	(0.3)	(0.3)
25%	2.6	2.7
5%	6.7	6.9
1%	9.4	9.8

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 2017.

The effect on equity of the foreign currency sensitivity analysis is not significant either for the year ended 2017 or 2016.

28.2.3 Interest rate sensitivity analysis

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

The main assumptions were as follows:

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

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

1) HUF base rate stays unchanged and BUBOR decreases gradually to 0% (probable scenario)
2) BUBOR decreases gradually by 50 bps over the next year and the base rate of NBH decreases to the level of BUBOR3M at the same time (alternative scenario)

The net interest income in a one year period after 1 January 2018 would be decreased by HUF 191 million (probable scenario) and HUF 5,028 million (alternative scenario) as a result of these simulation. The same simulation indicated HUF 924 million (probable scenario) and HUF 3,416 million (alternative scenario) decrease in the Net interest income in a one year period after 31 December 2016.
This effect is counterbalanced by capital gains HUF 306 million (or probable scenario), HUF 3,735 million (for alternative scenario) as at 31 December 2017 and (HUF 291 million for probable scenario, HUF 648 million for alternative scenario) as at 31 December 2016 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):

	2017		2016	
Description	**Effects to the net interest income (one-year period)**	**Effects to capital (Price change of available-for-sale government bonds)**	**Effects to the net interest income (one-year period)**	**Effects to capital (Price change of available-for-sale government bonds)**
HUF (0.1%) parallel shift	(1,658)	771	(1,383)	195
EUR (0.1%) parallel shift	(539)	–	(594)	–
USD (0.1%) parallel shift	(168)	–	(100)	–
Total	**(2,365)**	**771**	**(2,077)**	**195**

28.2.4 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	2017	2016
VaR (99%, one day, HUF million)	10	2
Stress test (HUF million)	(123)	(21)

28.3 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 2017 as well as in year 2016.

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 14.6%, the Regulatory capital was HUF 1,228,628 million and the Total regulatory capital requirement was HUF 671,194 million as at 31 December 2017. The same ratios calculated as at 31 December 2016 were the following: 18.2%, HUF 1,228,074 million and HUF 538,437 million.

Calculation on IFRS basis	2017	2016
Core capital (Tier1) = Common Equity Tier1 (CET1)	1,062,701	1,060,338
Issued capital	28,000	28,000
Reserves	1,383,726	1,388,187
Fair value corrections	59,936	44,265
Other capital components	(142,860)	(126,107)
Non-controlling interests	940	598
Treasury shares	(63,289)	(60,121)
Goodwill and other intangible assets	(178,640)	(164,343)
Other adjustments	(25,112)	(50,141)
Additional Tier1 (AT1)	–	–
Supplementary capital (Tier2)	165,927	167,736
Subordinated bonds and loans	75,695	77,458
Other issued capital components	89,935	89,935
Components recognized in T2 capital issued by subsidiaries	297	343
Regulatory capital*	**1,228,628**	**1,228,074**
Credit risk capital requirement	543,645	427,571
Market risk capital requirement	41,000	36,455
Operational risk capital requirement	86,549	74,411
Total requirement regulatory capital	**671,194**	**538,437**
Surplus capital	**557,434**	**689,637**
CET1 ratio	12.7%	15.8%
Tier1 ratio	12.7%	15.8%
Capital adequacy ratio	**14.6%**	**18.2%**

Basel III

The components of the Common Equity Tier1 capital (CET1) are the following: Issued capital, Reserves (Profit reserves, Other reserves, Changes in the equity of subsidiaries, Profit for the year, Changes due to consolidation) Fair value adjustments, Other capital components, (Revaluation reserves, Share based payments, Cash-flow hedges, Net investment hedge in foreign operations), Non-controlling interest, Treasury shares, Goodwill and other Intangible assets, other adjustments (due to prudential filters, due to deferred tax receivables, due to temporary regulations).

Supplementary capital (Tier2): Subordinated loan capital, Supplementary loan capital, Other issued capital components, Components recognized in T2 capital issued by subsidiaries.

* The consolidated regulatory capital of the Group contains the audited profit for year 2016 decreased by the paid dividend while in case of the year 2017 doesn't contain the result decreased by the payable dividend in accordance with 575/2013 EU regulation.

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

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

Contingent liabilities:

	2017	2016
Commitments to extend credit	1,731,030	1,234,450
Guarantees arising from banking activities	532,359	426,541
Legal disputes (disputed value)	15,775	13,053
Confirmed letters of credit	14,541	12,702
Other	326,745	302,362
Total	**2,620,450**	**1,989,108**

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.

On 14 December 2016 the Bank announces that in the so-called "retail risk breakfast" case the Hungarian Competition Authority's decision – delivered on 19 November 2013 – imposing a fine of HUF 3.9 billion on the Bank, as well as the upholding first and second instance judgments were repealed by the judgment sentenced by the Curia after the judicial review trial on 12 December, 2016. Curia has accepted the Competition Authority's position related to the definability of the alleged infringements. In February 2017 the fine was refunded for the Bank.

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 24,988 million and HUF 15,067 million as at 31 December 2017 and 2016, respectively (see Note 18).

Commitments to extend credit, guarantees and letters of credit

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

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

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

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

Guarantees, payment undertakings arising from banking activities

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

Derivatives

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

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

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

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

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

During implementation of the Remuneration Policy of the Group appeared that in case of certain foreign subsidiaries it is not possible to ensure the originally determined share-based payment because of legal reasons – incompatible with relevant EU-directives –, therefore a decision was made to cancel the share-based payment in affected countries.
The quantity of usable shares for individuals calculated for settlement of share-based payment shall be determined as the ratio of the amount of share-based payment and share price determined by Supervisory Board[2].

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

At the same time the conditions of discounted share-based payment are determined, and 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.

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

The parameters for the share-based payment relating to the year 2010–2014 were determined by Board of Directors, and relating to years from 2015 by the Supervisory Board for periods of each year as follows:

	Share purchasing at a discounted price (HUF per share)															
Year	for the year 2010		for the year 2011		for the year 2012		for the year 2013		for the year 2014		for the year 2015			for the year 2016		
	Exercise price	Maximum earnings	Exercise price	Maximum earnings	Exercise price	Maximum earnings	Exercise price	Maximum earnings	Exercise price	Maximum earnings	Exercise price	Maximum earnings	Price of remu-neration exchanged to share	Exercise price	Maximum earnings	Price of remu-neration exchanged to share
2011	3,946	2,500	–	–	–	–	–	–	–	–	–	–	–	–	–	–
2012	3,946	3,000	1,370	3,000	–	–	–	–	–	–	–	–	–	–	–	–
2013	4,446	3,500	1,870	3,000	2,886	3,000	–	–	–	–	–	–	–	–	–	–
2014	4,946	3,500	1,870	4,000	2,886	3,000	2,522	2,500	–	–	–	–	–	–	–	–
2015	–	–	1,870	4,000	2,886	3,000	2,522	3,000	3,930	2,500	–	–	–	–	–	–
2016	–	–	–	–	2,886	3,500	2,522	3,500	3,930	3,000	4,892	2,500	6,892	–	–	–
2017	–	–	–	–	–	–	2,522	3,500	3,930	3,000	4,892	3,000	6,892	7,200	2,500	9,200
2018	–	–	–	–	–	–	–	–	3,930	3,000	4,892	3,000	6,892	7,200	3,000	9,200
2019	–	–	–	–	–	–	–	–	–	–	4,892	3,000	6,892	7,200	3,500	9,200
2020	–	–	–	–	–	–	–	–	–	–	–	–	–	7,200	4,000	9,200

Based on parameters accepted by Board of Directors relating to the year 2010 effective pieces are follows as at 31 December 2017:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2017	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2011	–	340,950	11,622	5,731	329,328
Share purchasing period started in 2012	–	735,722	714,791	4,593	20,931
Share purchasing period started in 2013	–	419,479	31,789	4,808	387,690
Share purchasing period started in 2014	–	497,451	495,720	5,838	1,731

Based on parameters accepted by Board of Directors relating to the year 2011 effective pieces are follows as at 31 December 2017:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2017	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2012	–	471,240	464,753	3,758	6,487
Share purchasing period started in 2013	–	1,267,173	1,256,529	4,886	10,644
Share purchasing period started in 2014	–	609,137	609,137	4,799	–
Share purchasing period started in 2015	–	608,118	608,118	5,621	–

Based on parameters accepted by Board of Directors relating to the year 2012 effective pieces are follows as at 31 December 2017:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2017	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2013	–	450,861	445,671	4,413	5,190
Share purchasing period started in 2014	–	1,156,631	1,151,890	4,982	4,741
Share purchasing period started in 2015	–	555,845	555,845	5,658	–
Share purchasing period started in 2016	–	581,377	581,377	6,575	–

Based on parameters accepted by Board of Directors relating to the year 2013 effective pieces are follows as at 31 December 2017:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2017	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2014	–	406,044	404,263	4,369	1,781
Share purchasing period started in 2015	–	804,469	804,469	4,918	–
Share purchasing period started in 2016	–	393,750	392,946	6,775	–
Share purchasing period started in 2017	30,033	483,987	453,954	9,276	–

Based on parameters accepted by Board of Directors relating to the year 2014 effective pieces are follows as at 31 December 2017:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2017	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2015	–	176,459	176,459	5,828	–
Share purchasing period started in 2016	–	360,425	359,524	7,011	901
Share purchasing period started in 2017	11,137	189,778	178,641	9,243	–
Share purchasing period starting in 2018	237,013	–	–	–	–

Based on parameters accepted by Supervisory Board relating to the year 2015 effective pieces are follows as at 31 December 2017:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2017	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2016	–	152,247	152,247	7,373	–
Remuneration exchanged to share provided in 2016	–	10,947	10,947	6,509	–
Share purchasing period started in 2017	26,065	299,758	273,693	9,260	–
Remuneration exchanged to share provided in 2017	–	20,176	20,176	9,257	–
Share purchasing period starting in 2018	166,321	–	–	–	–
Remuneration exchanged to share applying in 2018	9,543	–	–	–	–
Share purchasing period starting in 2019	204,585	–	–	–	–
Remuneration exchanged to share applying in 2019	10,671	–	–	–	–

Based on parameters accepted by Supervisory Board relating to the year 2016 effective pieces are follows as at 31 December 2017:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2017	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2017	–	147,984	147,984	9,544	–
Remuneration exchanged to share provided in 2017	–	4,288	4,288	9,194	–
Share purchasing period starting in 2018	312,328	–	–	–	–
Remuneration exchanged to share applying in 2018	8,296	–	–	–	–
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	–	–	–	–

Effective pieces relating to the periods starting in 2016–2020 settled during valuation of performance of year 2013–2016, 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 detailed in 8/2013 resolution of Annual General Meeting and connecting compensation based on performance assessment accounted as equity-settled share based transactions, HUF 3,597 million and HUF 3,530 million was recognized as expense as at 31 December 2017 and 2016 respectively.

NOTE 31: RELATED PARTY TRANSACTIONS (in HUF mn)

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

Compensations	2017	2016
Short-term employee benefits	8,323	9,207
Share-based payment	2,520	2,330
Other long-term employee benefits	384	497
Termination benefits	29	26
Post-employment benefits	12	–
Total	**11,268**	**12,060**
Loans provided to companies owned by the Management (normal course of business)	56,508	49,383
Commitments to extend credit and guarantees	38,652	39,660
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)	3,743	326

	2017		2016	
Types of transactions	**Non-consolidated subsidiaries**	**Associated companies**	**Non-consolidated subsidiaries**	**Associated companies**
Loans provided	4,484	1,334	2,196	2,174
Client deposits	5,191	321	1,552	106
Net interest income on loan provided	132	111	20	80
Net fee incomes	44	–	39	–

The members of the Board of Directors, members of the Supervisory Board, chief executives and their close family members owned credit line "A" in the amount of HUF 201,6 million and HUF 173,9 million as at 31 December 2017 and 2016 respectively.

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

	2017	2016
Members of Board of Directors and their close family members	29	30
Executives	5	–
Members of Supervisory Board	–	2

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

	2017	2016
Members of Board of Directors and their close family members	31	26

Member of Board of Directors and its family member owned AMEX Blue credit card loan in the amount of HUF 0.6 million and HUF 1.2 million as at 31 December 2017 and 2016, respectively.

Executives owned AMEX Gold credit card loan in the amount of HUF 12 million and HUF 3.5 million as at 31 December 2017 and 2016, respectively, while members of the Board of Directors and their close family members owned AMEX Gold credit card loan in the amount of HUF 2.8 million and HUF 5.9 million as at 31 December 2017 and 2016, respectively.

The members of the Board of Directors, members of the Supervisory Board, executives and their close family members owned AMEX Platinum credit card loan in the amount of HUF 56.8 million and HUF 46.8 million, respectively as at 31 December 2017 and 2016, respectively.

Executives of the Bank owed Lombard loans in the amount of HUF 29,300 million and HUF 24.5 million as at 31 December 2017 and 2016, respectively and personal loans in the amount of HUF 5 million and HUF 10 million as at 31 December 2017 and 2016.

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

	2017	2016
Members of Board of Directors	2,121	1,935
Members of Supervisory Board	204	168
Total	**2,325**	**2,103**

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

NOTE 32: ACQUISITION (in HUF mn)

a) **Purchase and consolidation of subsidiaries**

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

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

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

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

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

	1 December 2017	30 April 2017
Cash consideration	(39,017)	(132,409)
Cash acquired	25,942	16,896
Net cash outflow	**(13.075)**	**(115,513)**

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

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

Significant subsidiaries

Name	Ownership (Direct and Indirect)		Activity
	2017	2016	
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%	97.88%	commercial banking services
OTP banka Hrvatska d.d. (Croatia)	100.00%	100.00%	commercial banking services
Splitska banka d.d. (Croatia)	100.00%	–	commercial banking services
OTP Bank Romania S.A. (Romania)	100.00%	100.00%	commercial banking services
OTP banka Srbija a.d. (Serbia)	98.90%	97.92%	commercial banking services
Vojvodjanska banka a.d. Novi Sad (Serbia)	100.00%	–	commercial banking services
OTP Banka Slovensko a. s. (Slovakia)	99.38%	99.26%	commercial banking services
OTP Financing Malta Ltd. (Malta)	100.00%	100.00%	refinancing activities
OTP Factoring Ltd.	100.00%	100.00%	work-out
OTP Mortgage Bank Ltd.	100.00%	100.00%	mortgage lending
OTP Real Estate Ltd.	100.00%	100.00%	real estate management and development
Merkantil Bank Ltd.	100.00%	100.00%	finance lease
Merkantil Car Ltd.	100.00%	100.00%	finance lease
OTP Building Society Ltd.	100.00%	100.00%	housing savings and loan
OTP Fund Management Ltd.	100.00%	100.00%	fund management
R.E. Four d.o.o. (Serbia)	100.00%	100.00%	real estate management
Crnogorska komercijalna banka a.d. (Montenegro)	100.00%	100.00%	commercial banking services
OTP Financing Netherlands B.V. (the Netherlands)	100.00%	100.00%	refinancing activities
OTP Holding Ltd. (Cyprus)	100.00%	100.00%	refinancing activities
OTP Financing Cyprus Ltd. (Cyprus)	100.00%	100.00%	refinancing activities
Bank Center No. 1. Ltd.	100.00%	100.00%	real estate lease
Inga Kettő Ltd.	100.00%	100.00%	property management
OTP Funds Servicing and Ltd.	100.00%	100.00%	fund services
OTP Real Estate Leasing Ltd. (previously OTP Flat Lease Ltd.)	100.00%	100.00%	real estate leasing
OTP Life Annuity Ltd.	100.00%	100.00%	life annuity services

Significant associates and joint ventures*

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

As at 31 December 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%	

As at 31 December 2016:

	Szallas.hu Ltd.	D-ÉG Thermoset Ltd.	Company for Cash Services Ltd.	Suzuki Pénzügyi Szolgáltató Ltd.	Total
Total assets	1,148	4,862	2,302	579	**8,891**
Total liabilities	543	4,004	103	–	**4,650**
Shareholders' equity	605	858	2,199	579	**4,241**
Total revenues	2,647	4,399	1,152	2	**8,200**
Ownership	30%	0.10%	20%	50%	

NOTE 34: TRUST ACTIVITIES (in HUF mn)

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

	2017	2016
The amount of loans managed by the Group as a trustee	39,413	35,383

NOTE 35: CONCENTRATION OF ASSETS AND LIABILITIES

In the percentage of the total assets	2017	2016 (restated)	2015 (restated)
Receivables from, or securities issued by the Hungarian Government or the NBH	21.69%	23.13%	28.36%

There were no other significant concentrations of the assets or liabilities of the Group as at 31 December 2017 or 2016.

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.

* Based on unaudited financial statements.

NOTE 36: MATURITY ANALYSIS OF ASSETS, LIABILITIES AND LIQUIDITY RISK (in HUF mn)

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 year 2017 there were no material changes in the liquidity risk management process.

The contractual amounts disclosed in the maturity analyses are the contractual undiscounted cash-flows like gross finance lease obligations (before deducting finance charges); prices specified in forward agreements to purchase financial assets for cash; net amounts for pay-floating/receive-fixed interest rate swaps for which net cash-flows are exchanged; contractual amounts to be exchanged in a derivative financial instrument for which gross cash-flows are exchanged; gross loan commitments.
Such undiscounted cash-flows differ from the amount included in the statement of financial position because the amount in that statement is based on discounted cash-flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the end of the period.

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

As at 31 December 2017:

	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Banks	1,198,257	22	–	–	293	1,198,572
Placements with other banks, net of allowance for placement losses	353,289	57,534	67,814	–	1,183	479,820
Securities held for trading	69,004	74,337	93,041	9,833	6,405	252,620
Securities available-for-sale	186,336	459,696	1,029,498	393,069	33,153	2,101,752
Loans, net of allowance for loan losses	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 held-to-maturity	62,873	64,141	470,228	666,807	5	1,264,054
Property, equipment and intangible assets	788	2,025	8,269	47,804	354,504	413,390
Investment properties	–	–	450	6,966	27,969	35,385
Other assets*	132,921	40,143	43,589	4,027	21,290	241,970
TOTAL ASSETS	**2,862,390**	**2,181,297**	**4,364,428**	**3,578,516**	**458,161**	**13,444,792**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	146,667	47,467	124,910	153,089	–	472,133
Deposits from customers	8,864,259	1,032,706	250,209	91,438	–	10,238,612
Liabilities from issued securities	8,758	13,234	223,785	2,092	–	247,869
Other liabilities*	363,012	28,852	21,500	13,172	3,579	430,115
Subordinated bonds and loans	325	2	–	75,701	–	76,028
TOTAL LIABILITIES	**9,383,021**	**1,122,261**	**620,404**	**335,492**	**3,579**	**11,464,757**
NET POSITION	**(6,520,631)**	**1,059,036**	**3,744,024**	**3,243,024**	**454,582**	**1,980,035**
Receivables from derivative financial instruments classified as held for trading	1,370,126	972,622	585,361	136,689	–	3,064,798
Liabilities from derivative financial instruments classified as held for trading	(1,665,817)	(796,322)	(513,955)	(150,520)	–	(3,126,614)
Net position of financial instruments classified as held for trading	**(295,691)**	**176,300**	**71,406**	**(13,831)**	**–**	**(61,816)**
Receivables from derivative financial instruments designated as fair value hedge	4,302	62,093	158,991	66,120	–	291,506
Liabilities from derivative financial instruments designated as fair value hedge	(402)	(307,404)	(468,105)	(20,241)	–	(796,152)
Net position of financial instruments designated as fair value hedge	**3,900**	**(245,311)**	**(309,114)**	**45,879**	**–**	**(504,646)**
Net position of derivative financial instruments total	**(291,791)**	**(69,011)**	**(237,708)**	**32,048**	**–**	**(566,462)**
Commitments to extend credit	730,236	754,814	205,020	40,620	340	1,731,030
Bank guarantees	120,691	177,311	134,118	98,445	1,794	532,359
Off-balance sheet commitments	**850,927**	**932,125**	**339,138**	**139,065**	**2,134**	**2,263,389**

* Without derivative financial instruments.

As at 31 December 2016 (restated):

	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	1,229,096	396,261	–	–	–	1,625,357
Placements with other banks, net of allowance for placement losses	280,215	29,213	52,133	15,431	228	377,220
Securities held-for-trading	13,545	22,445	24,416	11,782	7,869	80,057
Securities available-for-sale	56,516	104,970	1,001,181	256,265	30,292	1,449,224
Loans, net of allowance for loan losses	1,025,865	889,362	1,836,910	2,497,755	468	6,250,360
Associates and other investments	–	–	–	–	9,836	9,836
Securities held-to-maturity	57,025	65,146	362,898	582,257	–	1,067,326
Property, equipment and intangible assets	444	1,780	10,887	9,844	332,561	355,516
Investment properties	4,200	–	9,187	6,190	9,869	29,446
Other assets*	570	2,382	16,824	1,567	–	21,343
TOTAL ASSETS	**2,667,476**	**1,511,559**	**3,314,436**	**3,381,091**	**391,123**	**11,265,685**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	159,624	54,276	176,214	154,507	–	544,621
Deposits from customers	6,878,058	1,385,744	222,739	67,052	–	8,553,593
Liabilities from issued securities	24,586	29,374	86,613	6,958	–	147,531
Other liabilities*	324,404	31,697	16,440	8,340	2,582	383,463
Subordinated bonds and loans	353	164	1	-	76,945	77,463
TOTAL LIABILITIES	**7,387,025**	**1,501,255**	**502,007**	**236,857**	**79,527**	**9,706,671**
NET POSITION	**(4,719,549)**	**10,304**	**2,812,429**	**3,144,234**	**311,596**	**1,559,014**
Receivables from derivative financial instruments classified as held for trading	2,320,707	547,029	154,793	20,451	–	3,042,980
Liabilities from derivative financial instruments classified as held for trading	(2,306,574)	(539,463)	(143,258)	(23,499)	–	(3,012,794)
Net position of financial instruments classified as held for trading	**14,133**	**7,566**	**11,535**	**(3,048)**	**–**	**30,186**
Receivables from derivative financial instruments designated as fair value hedge	7,795	1,732	73,499	4,442	–	87,468
Liabilities from derivative financial instruments designated as fair value hedge	(6,687)	(205)	(98,096)	(4,233)	–	(109,221)
Net position of financial instruments designated as fair value hedge	1,108	1,527	(24,597)	209	–	(21,753)
Net position of derivative financial instruments total	**15,241**	**9,093**	**(13,062)**	**(2,839)**	**–**	**8,433**
Commitments to extend credit	410,141	589,593	188,911	45,689	116	1,234,450
Bank guarantees	145,896	114,319	59,638	104,974	1,714	426,541
Off-balance sheet commitments	**556,037**	**703,912**	**248,549**	**150,663**	**1,830**	**1,660,991**

* Without derivative financial instruments.

NOTE 37: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF mn)

As at 31 December 2017:

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

As at 31 December 2016:

	USD	EUR	CHF	Others	Total
Assets	294,327	2,162,945	46,261	2,778,704	5,282,237
Liabilities	(504,644)	(1,652,058)	(37,597)	(2,355,397)	(4,549,696)
Off-balance sheet assets and liabilities, net*	221,409	174,524	(17,096)	(344,752)	34,085
Net position	**11,092**	**685,411**	**(8,432)**	**78,555**	**766,626**

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.

NOTE 38: INTEREST RATE RISK MANAGEMENT (in HUF mn)

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.

* Off-balance sheet assets and liabilities, net category contains derivative instruments.

As at 31 December 2017:

	Within 1 month		Over 1 month and within 3 months		Over 3 months and within 12 months		Over 1 year and within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
ASSETS															
Cash, amounts due from banks and balances with the National Banks	**205,408**	**435,363**	**2,977**	**290**	**–**	**22**	**–**	**–**	**–**	**–**	**95,079**	**458,906**	**303,464**	**894,581**	**1,198,045**
fixed rate	203,141	363,723	2,972	290	–	22	–	–	–	–	–	–	206,113	364,035	570,148
variable rate	2,267	71,640	5	–	–	–	–	–	–	–	–	–	2,272	71,640	73,912
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	95,079	458,906	95,079	458,906	553,985
Placements with other banks, net of allowance for placements losses	**70,716**	**263,359**	**15,698**	**21,517**	**3,197**	**23,258**	**14,214**	**–**	**202**	**3,896**	**17**	**46,106**	**104,044**	**358,136**	**462,180**
fixed rate	14,098	197,489	1,063	10,969	3,197	13,983	14,214	–	202	3,188	–	–	32,774	225,629	258,403
variable rate	56,618	65,870	14,635	10,548	–	9,275	–	–	–	708	–	–	71,253	86,401	157,654
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	17	46,106	17	46,106	46,123
Securities held for trading	**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 available–for–sale	**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, net of allowance for loan losses	**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 held–to–maturity	**–**	**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
LIABILITIES															
Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks	**40,026**	**116,024**	**8,927**	**19,477**	**34,745**	**22,624**	**17,858**	**11,954**	**165,864**	**32,771**	**17**	**1,781**	**267,437**	**204,631**	**472,068**
fixed rate	22,904	82,573	8,583	2,085	25,817	17,182	17,843	11,954	165,115	32,768	–	–	240,262	146,562	386,824
variable rate	17,122	33,451	344	17,392	8,928	5,442	15	–	749	3	–	–	27,158	56,288	83,446
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	17	1,781	17	1,781	1,798
Deposits from customers	**1,337,594**	**3,597,101**	**142,659**	**386,023**	**98,017**	**722,046**	**59,361**	**80,024**	**2,894,525**	**681,756**	**2,312**	**232,053**	**4,534,468**	**5,699,003**	**10,233,471**
fixed rate	500,409	2,061,046	133,246	383,738	98,017	722,046	59,361	80,024	132,197	127,130	–	–	923,230	3,373,984	4,297,214
variable rate	837,185	1,536,055	9,413	2,285	–	–	–	–	2,762,328	554,626	–	–	3,608,926	2,092,966	5,701,892
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	2,312	232,053	2,312	232,053	234,365
Liabilities from issued securities	**53,686**	**1,358**	**2,309**	**2,462**	**7,621**	**3,265**	**39,818**	**251**	**134,286**	**57**	**5,197**	**10**	**242,917**	**7,403**	**250,320**
fixed rate	429	58	2,309	22	7,621	357	39,818	251	134,286	57	–	–	184,463	745	185,208
variable rate	53,257	1,300	–	2,440	–	2,908	–	–	–	–	–	–	53,257	6,648	59,905
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	5,197	10	5,197	10	5,207
Derivative financial instruments	**875,512**	**207,974**	**909,079**	**147,684**	**397,702**	**309,225**	**43,494**	**9,167**	**35,935**	**38,342**	**368,513**	**469,341**	**2,630,235**	**1,181,733**	**3,811,968**
fixed rate	853,960	204,051	770,912	123,845	394,530	303,888	43,428	9,167	35,935	38,342	–	–	2,098,765	679,293	2,778,058
variable rate	21,552	3,923	138,167	23,839	3,172	5,337	66	–	–	–	–	–	162,957	33,099	196,056
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	368,513	469,341	368,513	469,341	837,854
Subordinated bonds and loans	**–**	**–**	**–**	**76,020**	**–**	**–**	**–**	**–**	**–**	**1**	**–**	**7**	**–**	**76,028**	**76,028**
fixed rate	–	–	–	76,020	–	–	–	–	–	–	–	–	–	76,020	76,020
variable rate	–	–	–	–	–	–	–	–	–	1	–	–	–	1	1
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	7	–	7	7
Net position	**(303,707)**	**(449,558)**	**427,372**	**601,079**	**694,684**	**83,060**	**481,671**	**327,842**	**(1,170,572)**	**328,874**	**430,697**	**124,121**	**560,145**	**1,015,418**	**1,575,563**

As at 31 December 2016 (restated):

	Within 1 month		Over 1 month and within 3 months		Over 3 months and within 12 months		Over 1 year and within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
ASSETS															
Cash, amounts due from banks and balances with the National Banks	**501,289**	**530,368**	**185**	**262**	**–**	**80**	**–**	**–**	**–**	**–**	**89,422**	**503,751**	**590,896**	**1,034,461**	**1,625,357**
fixed rate	500,465	443,693	9	174	–	80	–	–	–	–	–	–	500,474	443,947	944,421
variable rate	824	86,675	176	88	–	–	–	–	–	–	–	–	1,000	86,763	87,763
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	89,422	503,751	89,422	503,751	593,173
Placements with other banks, net of allowance for placements losses	**45,212**	**221,870**	**13,356**	**21,503**	**5**	**23,361**	**515**	**–**	**428**	**797**	**1,532**	**34,951**	**61,048**	**302,482**	**363,530**
fixed rate	41,410	119,703	2,265	16,124	5	9,676	515	–	428	400	–	–	44,623	145,903	190,526
variable rate	3,802	102,167	11,091	5,379	–	13,685	–	–	–	397	–	–	14,893	121,628	136,521
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	1,532	34,951	1,532	34,951	36,483
Securities held for trading	**6,224**	**916**	**6,634**	**2,213**	**11,757**	**13,311**	**119**	**12,187**	**5,235**	**15,431**	**3,263**	**4,178**	**33,232**	**48,236**	**81,468**
fixed rate	2,419	916	6,167	2,213	7,268	13,311	119	12,187	5,235	15,431	–	–	21,208	44,058	65,266
variable rate	3,805	–	467	–	4,489	–	–	–	–	–	–	–	8,761	–	8,761
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	3,263	4,178	3,263	4,178	7,441
Securities available-for-sale	**22,867**	**29,448**	**17,896**	**44,262**	**84,337**	**81,962**	**330,032**	**29,066**	**555,385**	**279,939**	**23,375**	**28,524**	**1,033,892**	**493,201**	**1,527,093**
fixed rate	–	23,320	1,772	14,040	84,337	81,960	330,032	29,066	555,385	279,939	–	–	971,526	428,325	1,399,851
variable rate	22,867	6,128	16,124	30,222	–	2	–	–	–	–	–	–	38,991	36,352	75,343
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	23,375	28,524	23,375	28,524	51,899
Loans, net of allowance for loan losses	**550,597**	**1,796,652**	**713,311**	**746,620**	**314,546**	**266,373**	**221,238**	**140,765**	**478,810**	**323,363**	**89,765**	**94,192**	**2,368,267**	**3,367,965**	**5,736,232**
fixed rate	26,310	296,834	46,718	66,807	63,103	186,381	67,008	124,752	166,910	299,293	–	–	370,049	974,067	1,344,116
variable rate	524,287	1,499,818	666,593	679,813	251,443	79,992	154,230	16,013	311,900	24,070	–	–	1,908,453	2,299,706	4,208,159
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	89,765	94,192	89,765	94,192	183,957
Securities held-to-maturity	**–**	**28,815**	**25,292**	**3,976**	**220,251**	**3,548**	**59,501**	**4,805**	**693,487**	**58,954**	**15,513**	**85**	**1,014,044**	**100,183**	**1,114,227**
fixed rate	–	28,184	25,292	3,976	220,251	3,534	59,501	4,805	693,487	58,954	–	–	998,531	99,453	1,097,984
variable rate	–	631	–	–	–	14	–	–	–	–	–	–	–	645	645
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	15,513	85	15,513	85	15,598
Derivative financial instruments	**440,563**	**790,425**	**533,092**	**178,159**	**197,126**	**85,164**	**25,585**	**140,406**	**32,478**	**35,595**	**484,840**	**356,806**	**1,713,684**	**1,586,555**	**3,300,239**
fixed rate	425,320	435,181	261,919	111,266	195,635	72,291	25,585	140,406	32,478	35,595	–	–	940,937	794,739	1,735,676
variable rate	15,243	355,244	271,173	66,893	1,491	12,873	–	–	–	–	–	–	287,907	435,010	722,917
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	484,840	356,806	484,840	356,806	841,646
LIABILITIES															
Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks	**79,392**	**141,526**	**6,066**	**16,888**	**53,690**	**8,908**	**34,791**	**8,471**	**180,193**	**11,766**	**102**	**1,982**	**354,234**	**189,541**	**543,775**
fixed rate	78,779	58,004	5,974	859	27,356	5,625	34,744	5,740	179,983	6,219	–	–	326,836	76,447	403,283
variable rate	613	83,522	92	16,029	26,334	3,283	47	2,731	210	5,547	–	–	27,296	111,112	138,408
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	102	1,982	102	1,982	2,084
Deposits from customers	**1,310,585**	**2,524,949**	**351,252**	**363,467**	**378,096**	**596,436**	**5,227**	**138,664**	**1,988,233**	**736,961**	**10,139**	**136,574**	**4,043,532**	**4,497,051**	**8,540,583**
fixed rate	514,177	1,185,713	326,181	360,605	378,096	596,436	5,227	138,664	4,454	99,215	–	–	1,228,135	2,380,633	3,608,768
variable rate	796,408	1,339,236	25,071	2,862	–	–	–	–	1,983,779	637,746	–	–	2,805,258	1,979,844	4,785,102
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	10,139	136,574	10,139	136,574	146,713
Liabilities from issued securities	**1**	**9,340**	**2,957**	**9,375**	**7,480**	**18,451**	**9,320**	**204**	**87,367**	**38**	**1,951**	**416**	**109,076**	**37,824**	**146,900**
fixed rate	1	8,238	2,957	8,386	7,480	16,542	9,320	204	87,367	38	–	–	107,125	33,408	140,533
variable rate	–	1,102	–	989	–	1,909	–	–	–	–	–	–	–	4,000	4,000
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	1,951	416	1,951	416	2,367
Derivative financial instruments	**1,105,795**	**124,832**	**534,213**	**150,853**	**249,185**	**11,700**	**161,519**	**16,746**	**41,332**	**59,631**	**374,777**	**449,963**	**2,466,821**	**813,725**	**3,280,546**
fixed rate	740,009	119,742	313,883	56,132	248,403	2,351	161,519	16,746	41,332	59,631	–	–	1,505,146	254,602	1,759,748
variable rate	365,786	5,090	220,330	94,721	782	9,349	–	–	–	–	–	–	586,898	109,160	696,058
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	374,777	449,963	374,777	449,963	824,740
Subordinated bonds and loans	**–**	**–**	**–**	**76,936**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**522**	**–**	**77,458**	**77,458**
fixed rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
variable rate	–	–	–	76,936	–	–	–	–	–	–	–	–	–	76,936	76,936
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	522	–	522	522
Net position	**(929,021)**	**597,847**	**415,278**	**379,476**	**139,571**	**(161,696)**	**426,133**	**163,144**	**(531,302)**	**(94,317)**	**320,741**	**433,030**	**(158,600)**	**1,317,484**	**1,158,884**

NOTE 39: 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.

	2017	2016
Consolidated net profit for the period attributable to ordinary shareholders (in HUF mn)	281,142	202,210
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	261,743,165	264,214,052
Basic Earnings per share (in HUF)	**1,074**	**765**
Consolidated net profit for the period attributable to ordinary shareholders (in HUF mn)	281,142	202,210
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	261,851,512	264,266,374
Diluted Earnings per share (in HUF)	**1,074**	**765**
Weighted average number of ordinary shares	280,000,010	280,000,010
Average number of Treasury shares	18,256,845	15,785,958
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS	**261,743,165**	**264,214,052**
Dilutive effects of options issued in accordance with the remuneration policy and convertible into ordinary shares*	108,347	52,322
The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS	**261,851,512**	**264,266,374**

NOTE 40: NET GAIN OR LOSS REALIZED ON FINANCIAL INSTRUMENTS (in HUF mn)

As at 31 December 2017:

	Net interest gain and loss	Net non-interest gain and loss	Provision for impairment	Other Comprehensive Income
Cash, amounts due from banks and balances with the National Banks	1,444	–	–	–
Placements with other banks, net of allowance for placements losses	4,178	–	(228)	–
Securities held for trading	–	3,829	–	–
Securities available-for-sale	34,442	4,101	7	17,227
Loans, net of allowance for loan losses	513,919	19,218	(40,620)	–
Securities held-to-maturity	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**

* Both in year 2017 and 2016 the dilutive effect is in connection with the Remuneration Policy and the Management Option Program.

As at 31 December 2016:

	Net interest gain and loss	Net non-interest gain and loss	Provision for impairment	Other Comprehensive Income
Cash, amounts due from banks and balances with the National Banks	9,866	–	–	–
Placements with other banks, net of allowance for placements losses	4,263	–	133	–
Securities held for trading	–	1,450	–	–
Securities available-for-sale	34,557	19,378	55	12,993
Loans, net of allowance for loan losses	499,273	11,074	(93,605)	–
Securities held-to-maturity	51,427	–	–	–
Other assets	3,366	–	–	–
Derivative financial instruments	3,408	493	–	–
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	(7,723)	–	–	–
Deposits from customers	(63,743)	158,893	–	–
Liabilities from issued securities	(4,726)	–	–	–
Subordinated bonds and loans	(10,239)	–	–	–
Total	**519,729**	**191,288**	**(93,417)**	**12,993**

NOTE 41: 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 41. e) for more information about fair value classes applied for financial assets and liabilities measured at fair value in these financial statements.

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

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

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

Classes of assets and liabilities not measured at fair value in the statement of financial position, the income approach was used to convert future cash-flows to a single current amount. Fair value of current assets is equal to carrying amount, fair value of liabilities from issued securities and other bond-type classes of assets and liabilities not measured at fair value measured based on Reuters market rates, and fair value of other classes not measured at fair value of the statement of financial position is measured at discounted cash-flow method.

Fair value of loans, net of allowance for loan losses measured at discount rate adjustment technique, the discount rate is derived from observed rates of return for comparable assets or liabilities that are traded in the market.

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

a) Fair value of financial assets and liabilities

	2017		2016 (restated)	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash, amounts due from banks and balances with the National Banks	1,198,045	1,195,075	1,625,357	1,625,466
Placements with other banks, net of allowance for placements losses	462,180	474,585	363,530	374,733
Financial assets at fair value through profit or loss	344,417	344,417	189,778	189,778
Securities held for trading	259,263	259,263	81,468	81,468
Fair value of derivative financial instruments classified as held for trading	85,154	85,154	108,310	108,310
Securities available-for-sale	2,174,718	2,174,718	1,527,093	1,527,093
Loans, net of allowance for loan losses*	6,987,834	7,458,834	5,736,232	6,385,775
Securities held-to-maturity	1,310,331	1,419,123	1,114,227	1,198,227
Fair value of derivative financial instruments designated as fair value hedge	10,277	10,277	7,887	7,887
Other assets	144,472	144,472	135,291	135,291
Financial assets total	**12,632,274**	**13,221,501**	**10,699,395**	**11,444,250**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	472,068	464,194	543,775	540,194
Deposits from customers	10,233,471	10,221,086	8,540,583	8,511,959
Liabilities from issued securities	250,320	367,678	146,900	258,372
Fair value of derivative financial instruments classified as held for trading	69,874	69,874	75,871	75,871
Fair value of derivative financial instruments designated as fair value hedge	17,199	17,199	20,002	20,002
Other liabilities	404,268	404,268	364,503	364,503
Subordinated bonds and loans	76,028	72,890	77,458	69,966
Financial liabilities total	**11,523,228**	**11,614,189**	**9,769,092**	**9,840,867**

b) Fair value of derivative instruments

	Fair value	
	2017	2016
Interest rate swaps classified as held for trading		
Positive fair value of interest rate swaps classified as held for trading	33,377	38,878
Negative fair value of interest rate swaps classified as held for trading	(30,453)	(33,012)
Foreign exchange swaps classified as held for trading		
Positive fair value of foreign exchange swaps classified as held for trading	18,047	17,148
Negative fair value of foreign exchange swaps classified as held for trading	(14,745)	(13,125)
Interest rate swaps designated as fair value hedge		
Positive fair value of interest rate swaps designated as fair value hedge	6,639	6,888
Negative fair value of interest rate swaps designated as fair value hedge	(17,199)	(19,976)
CCIRS classified as held for trading		
Positive fair value of CCIRS classified as held for trading	16,976	33,768
Negative fair value of CCIRS classified as held for trading	(12,948)	(14,984)
Mark-to-market CCIRS classified as held for trading		
Positive fair value of mark-to-market CCIRS classified as held for trading	–	332
Negative fair value of mark-to-market CCIRS classified as held for trading	–	(700)
CCIRS designated as fair value hedge		
Positive fair value of CCIRS designated as fair value hedge	3,638	998
Negative fair value of CCIRS designated as fair value hedge	–	(26)
Other derivative contracts designated as fair value hedge		
Positive fair value of other derivative contracts designated as fair value hedge	–	1
Negative fair value of other derivative contracts designated as fair value hedge	–	–
Other derivative contracts classified as held for trading		
Positive fair value of other derivative contracts classified as held for trading	16,754	18,184
Negative fair value of other derivative contracts classified as held for trading	(11,728)	(14,050)
Derivative financial assets total	**95,431**	**116,197**
Derivative financial liabilities total	**(87,073)**	**(95,873)**
Derivative financial instruments total	**8,358**	**20,324**

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

c) Hedge accounting

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

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

As at 31 December 2017:

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

As at 31 December 2016:

Types of the hedges	Hedging instrument	Fair value of the hedging instrument	The nature of the risk being hedged
Fair value hedges	IRS	HUF (13,088) million	Interest rate
Fair value hedges	CCIRS	HUF 972 million	Interest rate/ Foreign exchange
Net investment hedge in foreign operations*	CCIRS and issued securities	HUF (577) million	Foreign exchange

d) Fair value hedges

1. Securities available-for-sale

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

	2017	2016
Fair value of the hedging IRS instruments	(15,210)	(19,305)

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

2. Loans to customers/corporates

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

	2017	2016
Fair value of the hedging IRS instruments	(9)	(4)
Fair value of the hedging CCIRS instruments	3,638	972

3. Issued securities

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

	2017	2016
Fair value of the hedging IRS instruments	4,659	6,221

As at 31 December 2017:

Types of hedged items	Types of hedging instruments	Fair value of the hedged items	Fair value of the hedging instruments	Gains/Losses on the hedged items	Gains/Losses on hedging instruments
Securities available-for-sale	IRS	HUF 939,611 million	HUF (15,210) million	HUF 7,136 million	HUF (6,739) million
Loans to customers	IRS	HUF 536 million	HUF (9) million	HUF 5 million	HUF (5) million
Loans to customers	CCIRS	HUF 85,904 million	HUF 3,638 million	HUF (3,653) million	HUF 3,653 million
Liabilities from issued securities	IRS	HUF 52,701 million	HUF 4,659 million	HUF 930 million	HUF (930) million

As at 31 December 2016:

Types of hedged items	Types of hedging instruments	Fair value of the hedged items	Fair value of the hedging instruments	Gains/Losses on the hedged items	Gains/Losses on hedging instruments
Securities available-for-sale	IRS	HUF 881,730 million	HUF (19,305) million	HUF 11,723 million	HUF (13,619) million
Loans to customers	IRS	HUF 451 million	HUF (4) million	HUF (161) million	HUF 161 million
Loans to corporates	CCIRS	HUF 53,937 million	HUF 972 million	HUF (168) million	HUF 168 million
Liabilities from issued securities	IRS	HUF 69,959 million	HUF 6,221 million	HUF 7,512 million	HUF (7,512) million

e) 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 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 held for trading	255,595	158,769	96,826	–
from this: positive fair value of derivative financial instruments classified as held for trading	85,154	280	84,874	–
Securities available-for-sale	2,151,973	1,693,738	448,397	9,838*
Positive fair value of derivative financial instruments designated as fair value hedge	10,277	–	10,277	–
Financial assets measured at fair value total	**2,502,999**	**1,852,787**	**640,374**	**9,838**
Negative fair value of derivative financial instruments classified as held for trading	69,874	188	69,686	–
Negative fair value of derivative financial instruments designated as fair value hedge	17,199	–	17,199	–
Financial liabilities measured at fair value total	**87,073**	**188**	**86,885**	**–**

As at 31 December 2016:

	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	188,848	62,876	125,972	–
from this: securities held for trading	80,538	62,789	17,749	–
from this: positive fair value of derivative financial instruments classified as held for trading	108,310	87	108,223	–
Securities available-for-sale	1,511,519	1,151,543	352,280	7,696*
Positive fair value of derivative financial instruments designated as fair value hedge	7,887	–	7,887	–
Financial assets measured at fair value total	**1,708,254**	**1,214,419**	**486,139**	**7,696**
Negative fair value of derivative financial instruments classified as held for trading	75,871	267	75,604	–
Negative fair value of derivative financial instruments designated as fair value hedge	20,002	–	19,943	59
Financial liabilities measured at fair value total	**95,873**	**267**	**95,547**	**59**

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

The following table shows a reconciliation of the opening and closing amount of Level 3 securities available-for-sale which are recorded at fair value:

Movement on securities available-for-sale in Level 3	Opening balance	Increase/ (Decrease)	Closing balance
OTP Bank Plc.	1,863	547	2,410
OTP Factoring Ltd.	2,096	83	2,179
DSK Bank EAD	1,658	489	2,147
Splitska banka d.d.	–	1.079	1.079
OTP Factoring Ukraine LLC	979	(266)	713
OTP banka Hrvatska d.d.	379	109	488
OTP Bank Romania S.A.	342	95	437
OTP Banka Slovensko a.s.	302	83	385
OTP banka Srbija a.d.	3	(3)	–
LLC AMC OTP Capital	74	(74)	–
Total	**7,696**	**2,142**	**9,838**

There were no movements among the levels of fair value hierarchy for the year ended 31 December 2017 and 2016.

NOTE 42: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS (in HUF mn)

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

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

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

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

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

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

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

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

Goodwill/investment impairment and their tax saving effect:

In the year ended 31 December 2017 in case of OTP Life Annuity Ltd. and R.E. Four d.o.o., OTP Hungaro-Projekt Ltd., OTP Real Estate Leasing Ltd., Air-Invest Ltd., OTP Bank JSC, and OTP Factoring Ukraine LLC HUF 1,824 million tax shield was recognized due to impairment on investment, which affect was compensated by HUF 7,384 million as release of impairment on subsidiaries: Merkantil Bank Ltd., OTP Mortgage Bank Ltd., OTP banka Hrvatska d.d., Crnogorska komercijalna banka a.d. Altogether in year 2017 with HUF 504 million goodwill impairment on OTP Banka Slovensko a.s. the tax shield was HUF 6.064 million. In year 2016 in OTP Factoring Ukraine LLC HUF 11,552 million due to the impairment on investment tax shield was recognized.

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

As at 31 December 2017:

Main components of the Consolidated Statement of Recognized Income in HUF million	OTP Group – consolidated – in the Consolidated Statement of Recognized Income – structure of accounting reports	Adjustements on the accounting in Recognized Income	OTP Group – consolidated – in the Consolidated Statement of Recognized Income – structure of management reports	OTP CORE (Hungary)	Foreign banks subtotal (without adjustments)	JSC "OTP Bank" (Russia)	OTP Bank JSC (Ukraine)	DSK Bank EAD (Bulgaria)
	a	b	1=a+b 1=2+3+12+16+17	2	3=4+...+11	4	5	6
Net profit for the year	**281,339**		**281,339**					
Adjustments (total)		**(2,732)**	**(2,732)**					
Dividends and net cash transfers (after income tax)		680	680					
Goodwill/investment impairment (after income tax)		(6,064)	(6,064)					
Bank tax on financial institutions (after income tax)		(15,233)	(15,233)					
Fine imposed by the Hungarian Competition Authority (after income tax)		177	177					
Effect of acquisition (after income tax)		17,708	17,708					
Consolidated adjusted net profit for the year	**281,339**	**2,733**	**284,072**	**168,575**	**96,652**	**20,381**	**14,120**	**47,121**
Profit before income tax	**322,842**	**(1,421)**	**321,421**	**185,561**	**115,015**	**26,079**	**17,074**	**52,041**
Adjusted operating profit	**363,690**	**(531)**	**363,159**	**150,833**	**192,737**	**64,497**	**18,876**	**61,460**
Adjusted total income	863,140	(58,195)	804,945	365,591	398,148	127,249	34,595	108,290
Adjusted net interest income	553,756	(7,102)	546,654	234,304	289,639	103,094	23,060	72,257
Adjusted net profit from fees and commissions	261,193	(51,765)	209,428	109,128	85,453	23,135	9,716	27,714
Adjusted other net non-interest income	48,191	672	48,863	22,159	23,056	1,020	1,819	8,319
Adjusted other administrative expenses	(499,450)	57,664	(441,786)	(214,758)	(205,411)	(62,752)	(15,719)	(46,830)
Total risk costs	**(40,848)**	**(4,835)**	**(45,683)**	**30,783**	**(77,722)**	**(38,418)**	**(1,802)**	**(9,419)**
Adjusted provision for impairment on loan and placement losses (without the effect of revaluation of FX)	(40,848)	9,789	(31,059)	33,586	(67,107)	(37,561)	(1,060)	(3,571)
Other provision (adjustment)	0	(14,624)	(14,624)	(2,803)	(10,615)	(857)	(742)	(5,848)
Total other adjustments (one-off items)*	**0**	**3,945**	**3,945**	**3,945**	**0**	**0**	**0**	**0**
Income tax	**(41,503)**	**4,154**	**(37,349)**	**(16,986)**	**(18,363)**	**(5,698)**	**(2,954)**	**(4,920)**
Total Assets	**13,190,228**	**0**	**13,190,228**	**7,704,135**	**6,488,032**	**671,724**	**312,334**	**1,925,740**
Total Liabilities	**11,550,173**	**0**	**11,550,173**	**6,273,879**	**5,635,488**	**529,369**	**278,254**	**1,675,445**

( ) used at: provisions, impairment and expenses.

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

	OTP Bank Romania S.A. (Romania)	OTP banka Srbija a.d. (Serbia)	OTP banka Hrvatska d.d. (Croatia)	OTP Banka Slovensko a.s. (Slovakia)	Crnogorska komercijalna banka a.d. (Montenegro)	Non-banking subsidiaries subtotal	Leasing subsidiaries	Asset Management subsidiaries	Other subsidiaries	Corporate Centre	Eliminations and adjustments
	7	8	9	10	11	12=13+14+15	13	14	15	16	17
	3,036	(2,905)	17,106	(2,051)	(156)	18,061	9,836	8,677	(452)	195	590
	3,952	(3,014)	20,848	(1,820)	(145)	19,893	10,453	9,499	(59)	584	369
	9,346	1,360	28,780	6,616	1,802	16,654	8,410	9,228	(984)	3,114	(178)
	27,138	10,071	63,644	17,452	9,709	46,094	18,013	12,449	15,632	3,407	(8,293)
	19,779	7,235	44,313	13,358	6,543	19,187	16,887	47	2,253	3,407	118
	3,064	2,275	12,603	3,627	3,319	15,342	309	12,425	2,608	0	(495)
	4,295	561	6,728	467	(153)	11,565	817	(23)	10,771	0	(7,916)
	(17,792)	(8,711)	(34,864)	(10,836)	(7,907)	(29,440)	(9,603)	(3,221)	(16,616)	(293)	8,115
	(5,394)	(4,374)	(7,932)	(8,436)	(1,947)	3,239	2,043	271	925	(2,530)	547
	(5,062)	(3,133)	(7,498)	(8,358)	(864)	1,921	1,951	0	(30)	0	542
	(332)	(1,241)	(434)	(78)	(1,083)	1,318	92	271	955	(2,530)	5
	0	0	0	0	0	0	0	0	0	0	0
	(916)	109	(3,742)	(231)	(11)	(1,832)	(617)	(822)	(393)	(389)	221
	624,060	482,887	1,821,613	452,084	197,590	813,667	528,453	23,095	262,119	1,674,411	(3,490,016)
	570,578	402,817	1,582,678	419,884	176,463	603,149	488,288	2,845	112,016	826,037	(1,788,381)

As at 31 December 2016:

Main components of the Consolidated Statement of Recognized Income in HUF million	OTP Group – consolidated – in the Consolidated Statement of Recognized Income – structure of accounting reports	Adjustements on the accounting in Recognized Income	OTP Group – consolidated – in the Consolidated Statement of Recognized Income – structure of management reports	OTP CORE (Hungary)	Foreign banks subtotal (without adjustments)	JSC "OTP Bank" (Russia)	OTP Bank JSC (Ukraine)	DSK Bank EAD (Bulgaria)
	a	b	1=a+b 1=2+3+12+16+17	2	3=4+…+11	4	5	6
Net profit for the year	**202,452**		**202,452**					
Adjustments (total)		**1,276**	**1,276**					
Dividends and net cash transfers (after income tax)		412	412					
Goodwill/investment impairment (after income tax)		11,552	11,552					
Bank tax on financial institutions (after income tax)		(13,950)	(13,950)					
Fine imposed by the Hungarian Competition Authority (after income tax)		1,922	1,922					
Expected corporate tax impact of switching to IFRS from HAS in Hungary		(5,766)	(5,766)					
Revaluation of deferred taxes recognized in the P&L due to the corporate tax rate cut in Hungary		(6,054)	(6,054)					
Gain on the sale of Visa Europe shares (after income tax)		13,160	13,160					
Consolidated adjusted net profit for the year	**202,452**	**(1,276)**	**201,176**	**122,190**	**73,623**	**14,636**	**10,202**	**47,383**
Profit before income tax	**236,395**	**8,376**	**244,771**	**151,866**	**86,165**	**19,648**	**11,679**	**52,380**
Adjusted operating profit	**329,868**	**6,032**	**335,900**	**143,672**	**179,108**	**54,537**	**22,217**	**70,111**
Adjusted total income	785,966	(49,651)	736,315	354,671	349,556	106,031	37,304	112,502
Adjusted net interest income	519,729	2,221	521,950	235,871	272,618	92,025	26,478	84,023
Adjusted net profit from fees and commissions	222,991	(47,025)	175,966	100,214	64,636	13,749	8,746	26,034
Adjusted other net non-interest income	43,246	(4,847)	38,399	18,586	12,302	257	2,080	2,445
Adjusted other administrative expenses	(456,098)	55,683	(400,415)	(210,999)	(170,448)	(51,494)	(15,087)	(42,391)
Total risk costs	**(93,473)**	**254**	**(93,219)**	**6,104**	**(92,943)**	**(34,889)**	**(10,538)**	**(17,731)**
Adjusted provision for impairment on loan and placement losses (without the effect of revaluation of FX)	(93,473)	20,249	(73,224)	14,036	(83,905)	(34,021)	(11,866)	(12,980)
Other provision (adjustment)	0	(19,995)	(19,995)	(7,932)	(9,038)	(868)	1,328	(4,751)
Total other adjustments (one-off items)*	**0**	**2,090**	**2,090**	**2,090**	**0**	**0**	**0**	**0**
Income tax	**(33,943)**	**(9,652)**	**(43,595)**	**(29,676)**	**(12,542)**	**(5,012)**	**(1,477)**	**(4,997)**
Total Assets (restated)	**11,307,665**	**0**	**11,307,665**	**7,247,291**	**4,820,637**	**648,807**	**307,117**	**1,852,901**
Total Liabilities (restated)	**9,887,016**	**0**	**9,887,016**	**5,934,832**	**4,224,484**	**518,032**	**282,874**	**1,605,634**

( ) used at: provisions, impairment and expenses.

* One-off item consists of: the result of the treasury share swap agreement at OTP Core in the amount of HUF 2,090 million.

OTP Bank Romania S.A. (Romania)	OTP banka Srbija a.d. (Serbia)	OTP banka Hrvatska d.d. (Croatia)	OTP Banka Slovensko a.s. (Slovakia)	Crnogorska komercijalna banka a.d. (Montenegro)	**Non-banking subsidiaries subtotal**	**Leasing subsidiaries**	**Asset Management subsidiaries**	**Other subsidiaries**	**Corporate Centre**	**Eliminations and adjustments**
7	8	9	10	11	12=13+14+15	13	14	15	16	17
1,653	**39**	**3,782**	**(2,224)**	**(1,848)**	**12,997**	**3,967**	**6,723**	**2,307**	**(5,868)**	**(1,766)**
2,136	**5**	**4,647**	**(2,480)**	**(1,850)**	**15,199**	**4,264**	**8,114**	**2,821**	**(6,615)**	**(1,844)**
8,543	**697**	**13,538**	**6,780**	**2,685**	**18,745**	**8,550**	**7,894**	**2,301**	**(4,318)**	**(1,307)**
26,643	7,720	31,442	17,892	10,022	52,469	17,038	10,842	24,589	(4,015)	(16,366)
20,315	5,769	22,800	14,257	6,951	23,936	19,804	33	4,099	(4,015)	(6,460)
3,230	1,653	5,330	3,272	2,622	11,325	(491)	10,796	1,020	0	(209)
3,098	298	3,312	363	449	17,208	(2,275)	13	19,470	0	(9,697)
(18,100)	(7,023)	(17,904)	(11,112)	(7,337)	(33,724)	(8,488)	(2,948)	(22,288)	(303)	15,059
(6,407)	**(692)**	**(8,891)**	**(9,260)**	**(4,535)**	**(3,546)**	**(4,286)**	**220**	**520**	**(2,297)**	**(537)**
(5,541)	(890)	(5,331)	(8,987)	(4,289)	(3,010)	(3,088)	0	78	0	(345)
(866)	198	(3,560)	(273)	(246)	(536)	(1,198)	220	442	(2,297)	(192)
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
(483)	**34**	**(865)**	**256**	**2**	**(2,202)**	**(297)**	**(1,391)**	**(514)**	**747**	**78**
588,188	**123,279**	**649,063**	**453,720**	**197,562**	**727,025**	**435,283**	**19,040**	**272,702**	**1,370,966**	**(2,858,254)**
545,678	**94,474**	**575,037**	**426,381**	**176,374**	**544,037**	**405,548**	**2,973**	**135,516**	**657,018**	**(1,473,355)**

NOTE 43: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2017

1) Term Note Program

See details in Note 16.

2) New acquisition in Croatia

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 and Société Générale Group, on 2 May 2017 the financial closure of the transaction has been completed and Splitska banka was consolidated. The integration process may be completed by the second half of year 2018. Splitska banka is the fifth biggest player on the Croatian banking market and as a universal bank it has been active in the retail and corporate segment as well.

3) New acquisition in Romania

OTP Bank Romania S.A., the Romanian subsidiary of OTP signed an acquisition agreement in July, 2017 on purchasing a 99.28% shareholding held in the Romanian Banca Romaneasca S.A. by National Bank of Greece S.A and certain other Romanian exposures held by different subsidiaries of National Bank of Greece S.A. signed in July 2017. The Competition Office has approved the transaction. The financial closing of the deal is subject to the necessary regulatory approvals by the central bank. The Group hasn't gained control over the company so in these consolidated financial statements for the end of year 2017 it hasn't been consolidated.

4) New acquisition in Serbia

OTP banka Srbija a.d. Novi Sad, the Serbian subsidiary of OTP signed an acquisition agreement on 4 August 2017 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. The agreed consideration for the share capital of VOBAN and NBG Leasing amounts to EUR 125 million. The financial closing of the transaction has been completed on 1 December 2017. The Group has gained control over the company so in these consolidated financial statements for the end of year 2017 it has been consolidated.

NOTE 44: POST BALANCE SHEET EVENTS

1) Transition to application of IFRS 9

See details in Note 1.2.2.

NOTE 45: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE GROUP'S FINANCIALS

In 2017 the **eurozone** was clearly back on the map of growth, with recovery gaining momentum as a result of previously launched reforms, the end of fiscal tightening, but mostly because of the improving labour market. Preliminary data indicate that the eurozone's GDP grew by 2.5% in 2017, topping by a large margin analysts' forecasts, which estimated only 1.3–1.5% growth a year ago. With employment breaking records, consumer confidence and business sentiment hit all-time or ten-year highs, domestic demand picked up, helping Europe's economy leave the early stage of recovery and enter the phase of matured, broad-based growth, which can pave the way for lasting robust growth if external conditions remain favourable. In the years ahead, monetary policy will support economic growth, because despite the good prospects the European Central Bank ("ECB") is likely to be rather cautious in normalizing monetary conditions.

The ECB extended the length of its quantitative easing programme by additional nine months, until September 2018, reducing monthly purchases from EUR 60 billion to EUR 30 billion, and interest rate hikes are unlikely before 2019.

Over the past quarters, the **US economy** fared well. Although markets expected its growth to decelerate, by now these forecasts have shifted higher, to 2.6% year/year (2018) and to 2.2% (2019). In the first estimate, the US economy expanded by 2.3% (year/year) in full-year 2017. It took one year for Donald Trump to deliver on one of his key election promises, and pass the tax reform, which undoubtedly benefits the high-income earners. Meanwhile the Fed raised interest rates by 25 basis points (to 1.25–1.5%) three times in 2017, continuing similar moves in December 2015 and December 2016.

The minutes of the December FOMC meeting reveal that the Fed's decision-makers plan two to four hikes, while the market expects two to three increases in 2018.

Hungary's full-year 2017 GDP growth surpassed all expectations, including our forecast. The 4% reading is the second strongest one since 2005 (it was 4.2% in 2014) but this is not outstanding in regional comparison: Romania sky-rocketed 6.9%, Poland surged 4.6%, and the Czech Republic expanded by 4.5%. The key driver of this robust expansion remained private consumption, which was coupled with an undoubted rise in private investment in 2017. The latter can be attributed to the rapid improvement in the real property sector as well as the technology developments necessitated by the capacity constraints in commercial and industrial real estates. Starting from the second half of 2017, agreements linked to EU projects resumed, giving a big boost to investment (in addition to a low base in 2016): its value added may have expanded by more than 20% last year, while the final consumption of households may have increased by about 4.5%. Nevertheless, economic actors are more cautious about manufacturing investments. Therefore, the stronger external demand caused by the more-robust-than-earlier-though upswing in the eurozone (2.5% economic growth versus the 1.5% forecast at the beginning of 2017) did not result in significant jump in industrial production or in the volume of exports.

On balance, private sector without agriculture had a very strong year, growing by more than 6% on yearly base in the second half of 2017. Hungary's balance indicators are favourable, the budget deficit remained modest despite the coming parliamentary elections, but public debt ratio is not shrinking as fast as had been expected, mostly because Eximbank's debt was re-classified as public sector debt. Owing to the import needs stemming from the strong domestic demand and the modest growth of exports, Hungary's external position started to deteriorate: the current account surplus shrank 2.4 percentage points, to 3.8% of GDP in 2017. The decline in external debt is slowing but that is not worrisome; the debt level is in line with the average of the CEE region.

Reversing the rise seen at the beginning of this year, the consumer price index started to drop in the autumn; the year/year index sank to nearly 2% by the turn of the 2017–2018 years. This owed a lot to fuel prices, the lower-than-expected food prices, and the surprisingly huge price fall in telecommunications services (due to VAT cuts in 2017 and 2018, and as roaming fees were abolished in July 2017). In 2018, one-off items help keep inflation around 2% (as the effects of cutting VAT and employers' contributions, and lifting excise duty and milk prices in 2017 all fade out) while in the corporate sector the (two years of) contribution cuts, and the efficiency improvement can still offset the cost pressure caused by double-digit wage growth. Therefore we do not expect considerable price hikes.

This helps the NBH maintain extra loose monetary conditions: short-term interest rates will remain near zero until the second half of 2019, while the long end of the yield curve is likely to move together with developed economies' benchmarks, in line with the communication of the Monetary Council's January rate-setting meeting. The NBH is unlikely to allow the forint's firming, but the Hungarian currency's exchange rate may move in the opposite direction. If the extra loose monetary conditions in Hungary, a slightly deteriorating external balance, and the increasingly tight monetary environments in the USA and the eurozone warrant a slight HUF depreciation, Hungary's central bank is unlikely to take action.

Russia continued its recovery from the recession of the recent years. In the middle of 2016, its GDP bottomed out, expanding by 1.5% in full year 2017, up from –0.2% in 2016. What supports its recuperation is that oil prices have grown by 60%, in rouble terms, from their lowest at the beginning of 2016. The higher oil price also benefits budget consolidation: the central budget's deficit contracted to almost 2% in 2017, down from 3.5% in 2016. Meanwhile inflation fell below the central bank's target of 4%, to 2.5% by December 2017. Disinflation benefited the continuation of the easing cycle, which also helped kick-start lending. Even though purging the banking system, a move encouraged by the central bank, caused the demise of some medium-sized banks in 2017, this did not shock the financial system as a whole. The decelerating inflation and the revival in lending helped household consumption bottom out, and surge 3.4% in 2017.

The economy became less vulnerable: the current account surplus amounted to 2.3% of GDP, and Russia's external debt dropped to 33.5% of GDP by December 2017, from 40% in the previous year. Currency reserves are steadily increasing, and the use of the budget's reserve funds has declined.

Ukraine's economic growth maintained the previous year's near-2% level in 2017, even though it was adversely affected by the blockade of the Eastern regions, which left its mark on industrial production for a while. Economic growth was driven by a revival in consumption, fuelled by the sharp growth in real wages; moreover strong investment activity also had a positive effect. In the second half of 2017, increasing government expenditure and improving net exports also benefited economic growth. This also means that economic growth was broad-based in 2017. We expect the positive contribution of consumption and net exports to continue, thus economic growth could exceed 3% in 2018. Inflation increased from 12.4% to 14.1% in 2017, due to higher staple food and administered prices, but the growing consumption activity and the depreciating hryvnia in the last quarter of 2017 also played part. Looking ahead, inflation in 2018 could be somewhat higher than expected due to base effects from 2017, but it could be around the central bank's 5% inflation target in 2019 when base effects fade.

The IMF programme went ahead in 2017, despite some delays in the reform process. The law on privatization, passed in January 2018, makes it easier and more efficient to sell loss-making state-owned companies. With this new reform, Ukraine could receive the next (fifth) tranche from the USD 17.5 billion IMF package in April 2018. Since 2016, no headway has been made in the military conflict in eastern Ukraine.

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 2017 banking tax calculation the end-2015 adjusted total assets must be used). The applicable upper tax rate has been moderated to 0.21%. The total annual amount of the banking tax payable in 2017 was already booked in one sum in 1Q 2017. Furthermore, the contribution tax introduced in 2006 was entirely abolished. In 2016 its annual amount was HUF 2 billion.

Effective from 1 January 2017 the **Hungarian corporate tax rate** was cut uniformly to 9%.

In 2017 the state subsidized housing loan disbursements represented 52.6 billion at OTP's Hungarian operation, up by 13% y-o-y, partially due to the additional demand generated by the **Housing Subsidy Scheme for Families** (CSOK). In 2017 around 10,800 applications for the CSOK subsidy were registered with a value of HUF 39 billion. Applicants also combined CSOK subsidy with subsidized or market-based loan applications in the amount of HUF 63 billion in 2017.

In 2016 the NBH launched the third, so called "phasing out" stage of the Funding for Growth Scheme, under which the deadline for concluding loan contracts was 31 March 2017. According to the data published by the NBH on 5 April 2017 the Hungarian credit institutions participating in the third part of the FGS scheme have granted loans to Hungarian micro and SME companies in the amount of HUF 685 billion since the beginning of 2016, whereas OTP contracted for HUF 102 billion under the scheme.

Summary of the National Bank of Hungary's steps influencing interest rate and yield levels:

According to the decision of the Monetary Council, the maximum amount of 3 months deposits placed with the central bank at the end of March 2017 was reduced to HUF 750 billion. For the end of June 2017 the limit was set at HUF 500 billion and at HUF 300 billion for September, respectively.

On 19 September the Monetary Council set a limit of HUF 75 billion applicable from the end of 2017, whereas it also reduced the overnight deposit rate by 10 bps to –15 bps.

Driven also by the above decisions, the Hungarian money market interest rates sank to their historic lows: by the end of 2017 the 3M BUBOR diminished to 3 bps from 15 bps in September 2017 and 37 bps at the end of 2016.

After its September meeting the Monetary Council stressed that the stock of swap instruments will be increased in the coming period in order to provide the loosening effect up to the longest possible section of the yield curve as soon as possible.

On its meeting held on 21 November 2017 the Council decided to introduce two unconventional instruments from January 2018 with an aim of loose monetary conditions to exert their effect not only at the short but also at the longer end of the yield curve. Pursuant to this,

- the Council introduced unconditional interest rate swap (IRS) facilities with five and ten-year maturities, the allocation amount of which has been set at HUF 300 billion for the first quarter of 2018. The IRS facilities are available for counterparty banks at regular tenders from the beginning of January 2018. The first tender was held on 18 January 2018. On 24 January 2018 the central bank revealed that it will announce its monetary policy interest rate swap facility at fixed rate tenders in the future (available for counterparty banks only), and the allocation among banks will be based upon balance sheet totals;
- additionally, the central bank launched a targeted programme, aimed at purchasing publicly issued, fixed-rate mortgage bonds from Hungarian issuers, denominated in forint, with an original maturity of at least 3 years and a current residual maturity of 1 year.

Both programmes contribute to an increase in the share of loans with long periods of interest rate fixation, thereby improving financial stability. The operational details of the programmes were disclosed by the central bank on 21 December 2017. The experiences from the consultation with market participants have also been incorporated by the central bank into the programmes.

Long-term yields decreased significantly in 4Q 2017. By the end of 2017 the 10 year government bond benchmark yield sank to 2.02% from 2.58% in September and 3.16% at the end of 2016.

The Budapest Stock Exchange, in cooperation with the MNB introduced three new mortgage bond indices in December 2017, which, at a later stage, may be potentially employed as official benchmarks also, according to the announcement.

At the end of December 2017 OTP kept HUF 17 billion in three-month central bank deposits.

As for the distribution of the liquidity reserves of the Bank, during the last twelve months there has been a gradual shift towards longer duration Hungarian government securities.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of OTP Bank Plc.

Opinion

We have audited the separate financial statements of OTP Bank Plc. (the "Bank") for the year 2017, which comprise the separate statement of financial position as at December 31, 2017, which shows total assets of HUF 7,771,882 million, the related separate statement of profit or loss and the separate statement of comprehensive income, which shows a net profit for the period of HUF 251,550 million, the separate statement of changes in equity, and the separate statement of cash-flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of the Bank as at December 31, 2017 and of its financial performance and its cash-flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (the "EU IFRS"), and the separate financial statements were prepared in all material respects in accordance with the provisions of the effective Hungarian Act C of 2000 on Accounting (the "Accounting Act") relevant to the entities preparing separate financial statements in accordance with EU IFRS.

Basis for Opinion

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

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

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

Emphasis of Matter

We draw attention to Note 2.26, which describes the restatement of the corresponding figures as of December 31, 2016. Our opinion is not modified in respect of this matter.

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Key Audit Matters

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

Key audit matter	How our audit addressed the matter
Impairment of loans	
(See notes 8., 23., and 27.1. of the notes to the separate financial statements for the details) At the year end, the Bank reported total gross loans of HUF 2,214,554 million and provisions for impairment on loan losses of HUF 69,508 million. The determination of impairment of loans 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 impairment of loans. The most significant assumptions applied in calculating the provision are the following: - valuation of collateral; - estimated time to realize collateral; - probability of default and recovery rates; and - estimation of future cash-flows expected to be realized. Based on the significance of the above described circumstances, the calculation of impairment of loans was considered as a key audit matter.	Our response as auditors included: - involvement of our actuarial and valuation experts to assist us in performing our procedures; - evaluating internal controls relating to monitoring of loans and calculating and recording of impairment; - sample based testing of specific loan impairments, including the assessment of valuation of collateral and estimation of expected future cash-flows; - assessing on a sample basis, whether the impairment triggers are captured and whether the estimation of the impairment is appropriate; - assessing the appropriateness of collective provisioning models; and - evaluating inputs, assumptions, management estimates and parameters applied, including comparison with historical data, and recalculating the impairment charge.

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Key audit matter	How our audit addressed the matter
Valuation of investments	
(See note 9. of the notes to the separate financial statements for the details) As a result of the Bank's investments in subsidiaries and associates performed in prior years, a net amount of HUF 967,414 million of investments is presented in the separate statement of financial position. As required by the applicable accounting standards, management conducts regular impairment tests to assess whether there is a need to record impairment with respect to the investments. These impairment tests take into account several material assumptions and the professional judgement of management, including in respect of discount rates applied, growth rates, cost levels and future risk costs. Accordingly, the valuation of investments is considered to be a key audit matter.	Our response as auditors included: - the assessment of the appropriateness of the assumptions applied by management; - reviewing the valuation models applied by management together with the applied assumptions with the involvement of our valuation experts; - evaluating whether the management plans and the resulting cash-flow forecasts are in accordance with historical results, including the performance of sensitivity analysis on the key parameters of the models when needed; and - considering the appropriate application of the relevant accounting standards, the related journal entries and disclosures.

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Other Information

Other information comprises the information included in the section called "Management's Analysis" of the annual report and the business report of the Bank for 2017, 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 2017" of the annual report, which is expected to be made available to us after that date, but does not include the separate financial statements and our independent auditor's report thereon. Management is responsible for the other information and for the preparation of the business report in accordance with the relevant provisions of the Accounting Act and other regulations. Our opinion on the separate financial statements provided in the section of our independent auditor's report entitled *"Opinion"* does not apply to the other information.

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

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

In our opinion, the business report of the Bank for 2017 corresponds to the separate financial statements of the Bank for 2017 and the relevant provisions of the Accounting Act in all material respects. The information referred to in Section 95/B. (2) a)-d), g) and h) of the Accounting Act has been provided and the business report contains the non-financial statement provided for in Section 95/C.

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

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

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

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

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

In preparing the separate financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the

going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.
Those charged with governance are responsible for overseeing the Bank's financial reporting process.

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

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

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

We also:

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment of the Auditor and the Period of Engagement
We were appointed as the auditors of the Bank by the General Meeting of Shareholders on April 12, 2017 and our uninterrupted engagement has lasted for 25 years.

Consistence with the Additional Report to the Audit Committee
We confirm that our audit opinion on the separate financial statements expressed herein is consistent with the additional report to the Audit Committee of the Bank, which we issued on March 13, 2018 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

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

The engagement partner on the audit resulting in this independent auditor's report is the signatory of the report.

Budapest, March 13, 2018

…………………………………………………………………….
Gion Gábor
on behalf of Deloitte Auditing and Consulting Ltd.
and as a statutory registered auditor

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

Registration number of statutory registered auditor: 005252

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Statement of financial position

(separate, based on IFRS, as at 31 December 2017, in HUF million)

	Note	31 December 2017	31 December 2016 (restated)	1 January 2016 (restated)
Cash, amounts due from banks and balances with the National Bank of Hungary	4	399,124	928,846	1,326,197
Placements with other banks, net of allowance for placement losses	5	978,098	915,654	647,724
Financial assets at fair value through profit or loss	6	303,927	168,188	180,717
Securities available-for-sale	7	1,735,902	1,484,522	1,462,660
Loans, net of allowance for loan losses	8	2,145,046	1,902,937	1,679,184
Investments in subsidiaries, associates and other investments	9	967,414	668,869	657,531
Securities held-to-maturity	10	1,043,779	858,150	824,801
Property and equipment	11	65,286	62,361	63,440
Intangible assets	11	32,877	27,767	32,438
Investment properties	12	2,374	2,267	2,294
Deferred tax assets	13	7,991	27,603	41,905
Derivative financial assets designated as fair value hedge	13	10,148	7,886	33,768
Other assets	13	79,916	98,082	76,931
TOTAL ASSETS		**7,771,882**	**7,153,132**	**7,029,590**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	14	694,533	646,271	829,122
Deposits from customers	15	5,192,869	4,745,051	4,323,239
Liabilities from issued securities	16	60,304	104,103	150,231
Financial liabilities at fair value through profit or loss	17	79,545	96,668	144,592
Derivative financial liabilities designated as fair value hedge	18	17,179	21,434	35,701
Other liabilities	18	193,360	216,824	197,540
Subordinated bonds and loans	19	108,835	110,358	266,063
TOTAL LIABILITIES		**6,346,625**	**5,940,709**	**5,946,488**
Share capital	20	28,000	28,000	28,000
Retained earnings and reserves	21	1,406,797	1,193,132	1,064,255
Treasury shares	22	(9,540)	(8,709)	(9,153)
TOTAL SHAREHOLDERS' EQUITY		**1,425,257**	**1,212,423**	**1,083,102**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**7,771,882**	**7,153,132**	**7,029,590**

Budapest, 13 March 2018

The accompanying notes to separate financial statements on pages 196 to 271 form an integral part of these separate financial statements.

Statement of profit or loss

(separate, based on IFRS, for the year ended 31 December 2017, in HUF million)

	Note	2017	2016
Interest Income			
Loans		120,960	125,170
Placements with other banks, net of allowance for placement losses		47,776	102,317
Securities available-for-sale		30,100	35,766
Securities held-to-maturity		44,737	41,327
Amounts due from banks and balances with National Bank of Hungary		1,403	9,830
Total Interest Income		244,976	314,410
Interest Expense			
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks		(56,893)	(103,668)
Deposits from customers		(9,244)	(22,853)
Liabilities from issued securities		(151)	(1,329)
Subordinated bonds and loans		(3,033)	(13,721)
Total Interest Expense		(69,321)	(141,571)
NET INTEREST INCOME		**175,655**	**172,839**
Provision for impairment on loan and placement losses	5, 8, 23	(7,775)	(13,632)
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES		**167,880**	**159,207**
Income from fees and commissions	24	206,759	189,731
Expenses from fees and commissions	24	(30,355)	(26,254)
Net profit from fees and commissions		**176,404**	**163,477**
Foreign exchange gains, net		4,555	5,075
Gains on securities, net		7,946	44,999
Gains on derivative instruments, net		2,030	656
Dividend income	9	82,638	90,467
Other operating income	25	9,990	8,583
Net other operating income/(expenses)	25	71,359	(28,851)
Net operating income		**178,518**	**120,929**
Personnel expenses	25	(90,444)	(88,720)
Depreciation and amortization	25	(20,486)	(21,872)
Other administrative expenses	25	(141,455)	(139,547)
Other administrative expenses		**(252,385)**	**(250,139)**
PROFIT BEFORE INCOME TAX		**270,417**	**193,474**
Income tax expense	26	(18,867)	(21,096)
NET PROFIT FOR THE PERIOD		**251,550**	**172,378**
Earnings per share (in HUF)			
Basic	**36**	**902**	**619**
Diluted	**36**	**902**	**619**

Statement of comprehensive income

(separate, based on IFRS, for the year ended 31 December 2017, in HUF million)

	Note	2017	2016
NET PROFIT FOR THE PERIOD		**251,550**	**172,378**
Other comprehensive income			
Items that may be reclassified subsequently from other comprehensive income to profit or loss			
Fair value adjustment of securities available-for-sale		18,174	1,951
Deferred tax related to securities available-for-sale	26	(1,636)	(371)
Effect of the tax rate-modification (19%→9%)		–	**5,758**
Total		**16,538**	**7,338**
NET COMPREHENSIVE INCOME		**268,088**	**179,716**

The accompanying notes to separate financial statements on pages 196 to 271 form an integral part of these separate financial statements.

Statement of changes in equity

(separate, based on IFRS, for the year ended 31 December 2017, in HUF million)

	Note	Share Capital	Capital reserve	Share-based payment reserve	Retained earnings and reserves	Option reserve	Treasury Shares	Total
Balance as at 1 January 2016		**28,000**	**52**	**24,707**	**1,094,964**	**(55,468)**	**(9,153)**	**1,083,102**
Net profit for the period		–	–	–	172,378	–	–	172,378
Other comprehensive income		–	–	–	7,338	–	–	7,338
Share-based payment	29	–	–	3,530	–	–	–	3,530
Payments to ICES holders	21	–	–	–	(3,943)	–	–	(3,943)
Sale of treasury shares	22	–	–	–	–	–	12,426	12,426
Loss on sale of treasury shares		–	–	–	(4,226)	–	–	(4,226)
Acquisition of treasury shares	22	–	–	–	–	–	(11,982)	(11,982)
Dividend for the year 2015		–	–	–	(46,200)	–	–	(46,200)
Balance as at 31 December 2016		**28,000**	**52**	**28,237**	**1,220,311**	**(55,468)**	**(8,709)**	**1,212,423**
Net profit for the period		–	–	–	251,550	–	–	251,550
Other comprehensive income		–	–	–	16,538	–	–	16,538
Share-based payment	29	–	–	3,598	–	–	–	3,598
Payments to ICES holders	21	–	–	–	(1,519)	–	–	(1,519)
Sale of treasury shares	22	–	–	–	–	–	12,679	12,679
Loss on sale of treasury shares		–	–	–	(3,302)	–	–	(3,302)
Acquisition of treasury shares	22	–	–	–	–	–	(13,510)	(13,510)
Dividend for the year 2016		–	–	–	(53,200)	–	–	(53,200)
Balance as at 31 December 2017		**28,000**	**52**	**31,835**	**1,430,378**	**(55,468)**	**(9,540)**	**1,425,257**

The accompanying notes to separate financial statements on pages 196 to 271 form an integral part of these separate financial statements.

Statement of cash-flows

(separate, based on IFRS, for the year ended 31 December 2017, in HUF million)

	Note	2017	2016 (restated)
OPERATING ACTIVITIES			
Profit before income tax		**270,417**	**193,474**
Depreciation and amortization		20,529	21,907
Provision for impairment on loan and placement losses	5, 8, 23	7,775	13,632
(Release of provision)/Provision for impairment on investments in subsidiaries	9	(65,200)	48,136
(Release of provision)/Provision for impairment on other assets	13, 25	(25,664)	(669)
Release of provision/(Provision) on off-balance sheet commitments and contingent liabilities	18	4,462	(36,114)
Share-based payment	29	3,598	3,530
Unrealised losses on fair value adjustment of securities available-for-sale and held for trading		(18,335)	(9,970)
Unrealised gains/(losses) on fair value adjustment of derivative financial instruments		12,458	(14)
Net changes in assets and liabilities in operating activities			
Changes in financial assets at fair value through profit or loss		(125,889)	(45,101)
Changes in financial liabilities at fair value through profit or loss		(17,123)	36,932
Net increase in loans, net of allowance for loan losses		(252,959)	(248,936)
Decrease/(increase) in other assets, excluding advances for investments and before provisions for losses		44,179	3,705
Net increase in deposits from customers		447,818	421,812
(Decrease)/Increase in other liabilities		(33,068)	17,954
Net (increase)/decrease in the compulsory reserve established by the National Bank of Hungary	4	(2,690)	38,759
Dividend income		(82,638)	(90,467)
Income tax paid		–	(264)
Net cash provided by operating activities		**187,670**	**368,306**
Interest received		237,247	301,157
Interest paid		(69,309)	(142,779)
INVESTING ACTIVITIES			
Net decrease in placements with other banks before allowance for placement losses		(62,412)	(267,933)
Purchase securities available-for-sale		(560,772)	(405,226)
Proceeds from sale of securities available-for-sale		327,553	385,345
Increase in investments in subsidiaries		(233,345)	(59,474)
Dividend income		80,017	90,260
Increase in securities held-to-maturity		(273,845)	(77,354)
Redemption of securities held-to-maturity		88,216	46,974
Additions to property, equipment and intangible assets		(36,316)	(30,906)
Proceeds from disposal of property, equipment and intangible assets		7,795	11,907
Net decrease in investment properties		(150)	–
Net decrease in advances for investments included in other assets		10	5
Net cash used in investing activities		**(663,249)**	**(306,402)**
FINANCING ACTIVITIES			
Net increase/(decrease) in amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks		48,262	(182,851)
Cash received from issuance of securities		36,225	26,856
Cash used for redemption of issued securities		(80,954)	(55,284)
Decrease in subordinated bonds and loans		(1,523)	(155,705)
Payments to ICES holders	21	(1,519)	(3,578)
Increase in Treasury shares		(13,510)	(16,208)
Decrease in Treasury shares		9,377	12,426
Dividend paid		(53,191)	(46,152)
Net cash used in financing activities		**(56,833)**	**(420,496)**
Net decrease in cash and cash equivalents		**(532,412)**	**(358,592)**
Cash and cash equivalents at the beginning of the period		**880,266**	**1,238,858**
Cash and cash equivalents at the end of the period	4	**347,854**	**880,266**

The accompanying notes to separate financial statements on pages 196 to 271 form an integral part of these separate financial statements.

NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS

1.1 General information

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

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

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

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

Due to Hungarian legislation audit services are statutory for OTP Bank. Disclosure information about the auditor: Deloitte Auditing and Consulting Ltd. (000083), Dózsa György Street 84/C, Budapest 1068. Registered under 01-09-071057 by Budapest-Capital Regional Court, as registry court. Statutory registered auditor: Gábor Gion, registration number: 005252.

Audit service fee agreed by the Annual General Meeting of the Bank for the year ended 2017 is an amount of HUF 63.76 million + VAT.

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

The structure of the Share capital by shareholders:

	31 December 2017	31 December 2016
Domestic and foreign private and institutional investors	98%	97%
Employees	1%	2%
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 provides a full range of commercial banking services through a nationwide network of 363 branches in Hungary.

Number of employees of the Bank:

	31 December 2017	31 December 2016
Number of employees	8,374	7,969
Average number of employees	7,940	7,836

1.2 Basis of accounting

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

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

The separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). IFRS as adopted by the EU do not currently differ from IFRS as issued by the International Accounting Standards Board ("IASB"), except for portfolio hedge accounting under IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") which has not been approved by the EU. As the Bank does not apply portfolio hedge accounting under IAS 39, there would be no impact on these separate financial statements, had it been approved by the EU before the preparation of these financial statements.

1.2.1 The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2017

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

- **Amendments to IAS 7 "Statement of Cash Flows"** – Disclosure Initiative – adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 12 "Income Taxes"** – Recognition of Deferred Tax Assets for Unrealised Losses – adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IFRS 12 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 12 are to be applied for annual periods beginning on or after 1 January 2017).

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

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

- **Amendments to IFRS 2 "Share-based Payment"** – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- **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).
- **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 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 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).

The adoption of the above presented Amendments and new Standards and Interpretations would have no significant impact on the separate financial statements in the period of initial application except for IFRS 9 and IFRS 16.

Implementation of IFRS 16

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

Under IFRS 16 a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. As with IFRS 16's predecessor, IAS 17, lessors classify leases as operating or finance in nature. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise a lease is classified as an operating lease. For finance leases a lessor recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognises operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis.

Implementation of IFRS 9

The Bank analysed the estimated impact of the application of IFRS 9 in accordance with IAS 8, paragraph 30–31 and is presented in the Bank's separate financial statements the following way.

IFRS 9 "Financial Instruments" replaces IAS 39 "Financial Instruments: Recognition and Measurement" for annual reporting periods commencing on or after 1 January 2018. It contains changes to the requirements relating to the recognition and measurement, impairment, derecognition and hedge accounting.

The Bank started its preparation for IFRS 9 actively in 2016 led by the Bank's Risk Management and Finance Divisions, and during 2017 the most of the preparation was finalized. The preparations covered the key challenges that the Bank faces with the new standard.

The identification of gaps between its currently developed methodologies and the IFRS 9 requirements in classification and measurement, impairment and hedge accounting was completed in recent months, with various harmonizing processes required in respect of a measuring a significant increase in credit risk (SICR). Finalisation of most of these activities is planned for the first half of 2018, some of them may not be finalised by the end of 2018 for the insignificant portfolios.

Classification and measurement

IFRS 9 introduced a new approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. The Bank recognizes the financial liabilities on amortized cost except in those cases when the standard requires otherwise, or according to the fair value option the entity chose to recognize the financial instrument on the fair value through profit or loss. Preliminary analyses of the business models and contractual cash flows on the Bank's significant portfolios were performed to determine by product segments those financial instruments that would be measured at amortised cost, at fair value through profit or loss or at fair value through Other Comprehensive Income.

According to the estimation, 19.554 million HUF loans will be measured on fair value as of 1 January 2018 in the separate financial statements.

Hedge accounting

IFRS 9 introduced a substantially revised model for hedge accounting, with enhanced disclosures about risk management activity. The new model aligns accounting treatment with risk management activities, having enabled entities to better reflect these activities in their financial statements. In addition, users of the financial statements are provided with better information about risk management and the effect of hedge accounting on the financial statements. OTP Bank has already started to implement the requirements of IFRS 9 for the hedge accounting.

Impairment

IFRS 9 introduced an expected-loss impairment model instead of the previously applied incurred loss model that requires a more timely recognition of credit losses. The standard requires entities to account for expected credit losses from the moment when financial instruments are first identified.

The use of a new, three stage model was implemented for IFRS 9 purposes. The new impairment methodology is used to classify financial instruments in order to determine whether credit risk has significantly increased since initial recognition and able to identify credit-impaired assets. For instruments with credit-impairment or significant increase of credit risk lifetime expected losses will be recognized.

The increased credit-impairment is identified by transactions on the basis of predetermined conditions and beyond this the estimation is made on portfolio level. Assets where no significant increase of credit risk (excluding purchased or originated credit-impaired financial assets) was identified remains to be provisioned based on a 12-month expected loss methodology.

For purchased or originated credit-impaired financial assets the same lifetime expected loss methodology was extended in order to be able to capture the cumulative changes in lifetime expected credit losses since the initial recognition as a credit-impaired instrument.

The Bank chose the using of the simplified impairment approach for trade receivables and contract assets.

The Bank started to further improve its risk management definitions, processes and methodological analysis in line with the expectations of IFRS 9. The Bank has started developing the methodology – using the behavioural scoring model – for the identification of significant increase of credit risk and the calculation of expected credit losses through the use IFRS 9 compliant risk parameters.

Based on the gap analyses and the changes in methodology the main principles regarding the IT solutions for IFRS 9 implementation were laid down. Preliminary specifications were prepared and IT implementation was completed mostly in 2017 although there are ongoing aspects such as rating/scoring models for significant portfolios where the developments have not yet been finished.

The estimation of quantitative impact of IFRS 9 is based on the best estimation of our management as of the date of the issue of these separate financial statements. However the management of the Bank consider uncertainties exist in respect of certain aspects of the methodology described above, together with interpretations of the standard, and evolving industry practice, and these uncertainties could result in these initial estimates varying to what is ultimately adjusted as of 1 January 2018, and the amount of the variance could be significant.

Effect of transition to IFRS 9 on CET1 capital is not significant in case of the separate financial statements.

Amounts in HUF million (before tax)	Opening balance according to IAS 39 as at 1 January 2018	Remeasurement due to reclassification	Remeasurement due to impairment	Opening balance according to IFRS 9 as at 1 January 2018
Placements with other banks	978,098	–	(1,257)	976,841
Loans	2,145,049	1,425	(6,185)	2,140,289
Securities	2,986,481	–	(3,523)	2,982,958
Off-balance sheet items	(10,007)	–	2,683	(7,324)
Amounts due to banks	694,533	1,437	–	695,970
Total	**–**	**(12)**	**(8,282)**	**–**

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

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 9 "Financial Instruments"** – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 10 "Consolidated Financial Statements"** and **IAS 28 "Investments in Associates and Joint Ventures"** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IAS 19 "Employee Benefits"** – Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 40 "Investment Property"** – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015–2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019)
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018),
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019).

Hedge accounting regarding the portfolio of financial assets and liabilities, whose principals have not been adopted by the EU, is still unregulated. According to the Bank's estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement", would not significantly impact the financial statements, if applied as at the balance sheet date. The adoption of the above presented Amendments and new Standards and Interpretations would have no significant impact on the separate financial statements in the period of initial application.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of presentation

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

The presentation of separate financial statements in conformity with IFRS requires the Management of the Bank to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Future changes in economic conditions, business strategies, regulatory requirements, accounting rules and other factors could result in a change in estimates that could have a material impact on future separate financial statements.

2.2 Foreign currency translation

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

2.3 Consolidated financial statements

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

2.4 Investments in subsidiaries, associates and other investments

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

Investments in subsidiaries are recorded at the cost of acquisition, less impairment for permanent diminution in value, when appropriate. After initial measurement investments in subsidiaries are measured at cost, in the case of foreign currency denominated investments for the measurement the Bank uses the exchange rate at the date of transaction.

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

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

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

2.5 Securities held-to-maturity

Investments in securities, traded in active market (with fixed or determinable cash-flows) are accounted for on a trade date basis and are initially measured at fair value. At subsequent reporting dates, securities that the Bank has the expressed intention and ability to hold to maturity (securities held-to-maturity) are measured at amortised cost, less any impairment losses recognized to reflect irrecoverable amounts.

The amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivables over the term of the investment so that the revenue recognized in each period represents a constant yield on the investment.

Such securities comprise mainly securities issued by the Hungarian Government and mortgage bonds.

2.6 Financial assets at fair value through profit or loss

2.6.1 Securities held for trading

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

2.6.2 Derivative financial instruments

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

Derivative financial instruments are accounted for on a trade date basis and are initially measured at fair value and at subsequent reporting dates also at fair value. Fair values are obtained from quoted market prices, discounted cash-flow models and option pricing models as appropriate. OTP Bank adopts multi curve valuation approach for calculating the net present value of future cash flows – based on different curves used for determining forward rates and used for discounting purposes. It shows the best estimation of such derivative deals that are collateralised as OTP Bank has almost its entire open derivative transactions collateralised. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in profit or loss and

[1] First In First Out

are included in the separate statement of profit or loss for the period. Each derivative deal is determined as asset when fair value is positive and as liability when fair value is negative.

Certain derivative transactions, while providing effective economic hedges under risk management positions of the Bank, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses charged directly to the separate statement of profit or loss.

Foreign currency contracts

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

Foreign exchange swaps and interest rate swaps

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

Interest rate swaps obligate two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount (the base of the interest calculation). Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps.

Such notional principal amounts are often used to express the volume of these transactions but are not actually exchanged between the counterparties. The Bank's interest rate swap contracts can be hedging or held for trading contracts.

Cross-currency interest rate swaps

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

Equity and commodity swaps

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

Forward rate agreements (FRA)

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

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

Foreign exchange options

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

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

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

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

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

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

2.8 Offsetting

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

2.9 Embedded derivatives

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

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

2.10 Securities available-for-sale

Investments in securities are accounted for on a trade date basis and are initially measured at fair value. Available-for-sale securities are measured at subsequent reporting dates at fair value. Unrealised gains and losses on available-for-sale financial instruments are recognized in other comprehensive income, except for interest and foreign exchange gains/losses on monetary items, unless such available-for-sale security is part of an effective hedge. Such gains and losses will be reported when realised in profit or loss for the applicable period. The Bank uses FIFO[1] inventory valuation method for securities held for trading.

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

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

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

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

[1] First In First Out

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

Loans and placements with other banks are accounted at amortised cost. Amortised cost contains the following items: the principal amounts outstanding including accrued interest, transaction costs, net of allowance for loan or placement losses. Transaction fees and charges should adjust the carrying amount at initial recognition and be included in effective interest calculation. Loans and placements with other banks are derecognised when the contractual rights to the cash-flows expire or they are transferred. Interest and amortised cost are accounted using effective interest rate method. When a borrower is unable to meet payments as they fall due or, in the opinion of the Management, there is an indication that a borrower may be unable to meet payments as they fall due, all unpaid interest becomes impaired.

According to IAS 39, initially financial assets shall be recognized at fair value which is usually equal to transaction value of loans and receivables. Initial fair value of loans and receivables lent at interest below market conditions is lower than their transaction price. As a consequence the Bank is deferring the difference between the fair value at initial recognition and the transaction price relating to loans and receivables because input data for measuring the fair values is not available on observable markets.

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

The allowances for loan and placement losses are maintained to cover losses that have been specifically identified. Collective impairment

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

If the reason for provisioning is no longer deemed appropriate, the redundant provisioning charge is released into income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss shall be reversed by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

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

OTP Bank applies partial or full write-off for loans based on the definitions and prescriptions of financial instruments in accordance with IAS 39. If OTP Bank has no reasonable expectations regarding a financial asset (loan) to be recovered, it will be written off partially or fully at the time of emergence. A loan will be written off if it has overdue or was terminated by the Bank.

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

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

2.12 Sale and repurchase agreements, security lending

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

In the case of security lending transactions the Bank does not recognize or derecognize the securities because it is believed that the transferor retains substantially all the risks and rewards of the ownership of the securities.

2.13 Property, equipment and intangible assets

Property, equipment and intangible assets are stated at cost, less accumulated depreciation and amortization and impairment, if any.
The depreciable amount (book value less

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

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

Depreciation and amortization on properties, equipment and intangible assets starts on the day when such assets are placed into service. At each balance sheet date, the Bank reviews the carrying value of its tangible and intangible assets to determine if there is any indication that those assets have suffered an impairment loss.

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

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

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

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

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

2.14 Investment properties

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

2.15 Financial liabilities

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

2.16 Leases

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

2.17 Treasury shares

Treasury shares are shares which are purchased on the stock exchange and the over-the-counter market by the Bank and are presented in the separate statement of financial position at acquisition cost as a deduction from shareholders' equity.

Gains and losses on the sale of treasury shares are credited or charged directly to shareholder's equity in the treasury shares. Derecognition of treasury shares is based on the FIFO method.

2.18 Interest income and interest expense

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

The Bank recognizes interest income when it considers that the interest associated with the transaction will flow to the Bank and the amount of the revenue can be reasonably measured. All interest income and expense arising from loans, placements with other banks, securities held for trading, securities available-for-sale, securities held to maturity and amounts due to banks, deposits from customers, liabilities from issued securities, subordinated bond and loans are presented under these lines of financial statement. These line items are measured by amortised cost model.

2.19 Fees and Commissions

Fees and commissions are recognised using effective interest method referring to provisions of IAS 39, when they relate and have to be included in the amortised cost model. Certain fees and commissions that are not involved in the amortised cost model and not material to the Statement of Profit or Loss are recognised in the separate statement of profit or loss on an accrual basis based on IAS 18 Revenue.

2.20 Dividend income

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

2.21 Income tax

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

2.22 Off-balance sheet commitments and contingent liabilities

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

2.23 Share-based payment and employee benefit

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

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

2.24 Separate statement of cash-flows

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

2.25 Segment reporting

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

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

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

2.26 Comparative figures and restatement

These separate financial statements are prepared in accordance with the same accounting policies in all respects as the authorised Separate Financial Statements prepared in accordance with IFRS as adopted by the EU for the year ended 31 December 2016, which were approved by the Management Board on 16 March 2017, however certain balances have been restated as described below. In order to better reflect the nature of the OTP–MOL share swap transaction the Management has decided to change the presentation by recognising the fair value of the derivative as a single figure as disclosed in Note 6, rather than presenting it separately as financial assets and liabilities.

In the restated separate statement of financial position, the fair value of the derivative is recognised in the amount which is equal to the sum of previously recognised positive fair value of the asset and the previously recognised negative value of the liability. Valuation model for the share-swap has not changed, only the presentation in the statement of financial position has been changed. Since the MOL shares and the related financial liability have been measured at fair value in the separate financial statements the change does not have effect on the Bank's profit or loss, equity, cash position and earnings per share ("EPS") ratio.

In the Separate Statement of Cash-flows for the year 2016 changes in financial assets at fair value through profit or loss, other assets and other liabilities explained the restatement, but altogether the net cash from operating activities wasn't affected.

Comparative figures (in HUF million)	2016 previously reported	Restatement adjustment	2016 (restated)	2015 previously reported	Restatement adjustment	2015 (restated)
Financial assets at fair value through profit or loss	271,516	(103,328)	168,188	252,140	(71,423)	180,717
Other asset	93,378	4,704	98,082	72,294	4,637	76,931
Total assets	**7,251,756**	**(98,624)**	**7,153,132**	**7,096,376**	**(66,786)**	**7,029,590**
Other liabilities	315,448	(98,624)	216,824	264,326	(66,786)	197,540
Total liabilities	**6,039,333**	**(98,624)**	**5,940,709**	**6,013,274**	**(66,786)**	**5,946,488**

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

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

3.1 Impairment on loans and placements

The Bank regularly assesses its loan portfolio for impairment. Management determines the adequacy of the allowances based upon reviews of individual loans and placements, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors. Provisioning involves many uncertainties about the outcome of those risks and requires the Management of the Bank to make many subjective judgements in estimating the loss amounts. An impairment loss is incurred when there is objective evidence of impairment due to one or more events that occurred after the initial recognition of the asset ('a loss event'), when the loss has a reliably measurable impact on the expected future cash flows from the financial asset or group of financial assets. Future cash flows are assessed by the Bank on the basis of estimates based on historical parameters. The adopted methodology used for estimating impairment allowances is in line with the further possibilities of accumulations of historic impairment data from the existing information systems and applications. As a consequence, acquiring new data by the Bank could affect the level of impairment allowances in the future.

3.2 Valuation of instruments without direct quotations

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

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

3.3 Provisions

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

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

Provision for off-balance sheet items includes provision for litigation, provision for retirement and expected liabilities, for commitments to extend credit, provision for warranties arising from banking activities and provision for Confirmed letter of credit.

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

	2017	2016
Cash on hand:		
In HUF	93,496	88,244
In foreign currency	9,610	11,108
	103,106	**99,352**
Amounts due from banks and balances with National Bank of Hungary:		
Within one year:		
In HUF	204,522	500,225
In foreign currency	91,346	329,040
	295,868	**829,265**
Accrued interest	150	229
Total	**399,124**	**928,846**
Average amount of compulsory reserve	51,270	48,580
Cash and cash equivalents total	**347,854**	**880,266**
Rate of the compulsory reserve	1%	2%

The Bank shall deposit compulsory reserve in a determined percent of its liabilities at NBH. Liabilities considered in compulsory reserve calculation are as follows:
a) deposits and loans,
b) debt instruments,
c) repo transactions.

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

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

	2017	2016
Within one year:		
In HUF	662,357	575,564
In foreign currency	108,875	148,659
	771,232	**724,223**
Over one year:		
In HUF	196,079	180,632
In foreign currency	9,304	8,519
	205,383	**189,151**
Total placements	**976,615**	**913,374**
Accrued interest	1,483	2,312
Provision for impairment on placement losses	–	(32)
Total	**978,098**	**915,654**

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

	2017	2016
Balance as at 1 January	**32**	**29**
(Release of provision)/Provision for the period	(32)	3
Closing balance	**–**	**32**

Interest conditions of placements with other banks :

	2017	2016
Placements with other banks in HUF	(0.5%)–3.84%	0%–2.86%
Placements with other banks in foreign currency	(0.73%)–1.75%	(15%)–7.3%
Average interest of placements with other banks	0.74%	1.34%

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

	2017	2016 (restated)	2015 (restated)
Securities held for trading:			
Hungarian government interest bearing Treasury Bills	93,806	15,639	7,768
Government bonds	64,570	10,857	12,613
Securities issued by credit institutions	16,793	13,396	–
Corporate shares and investments	9,506	209	356
Hungarian government discounted Treasury Bills	1,169	97	366
Mortgage bonds	–	82	94
Other securities	17,790	3,816	510
Subtotal	**203,634**	**44,096**	**21,707**
Accrued interest	3,081	516	433
Total	**206,715**	**44,612**	**22,140**
Derivative financial instruments:			
CCIRS and mark-to-market CCIRS*	21,314	43,538	102,125
Interest rate swaps	34,911	38,413	33,869
Foreign currency swaps	24,436	23,385	14,352
Other derivative transactions**	16,551	18,240	8,231
Subtotal	**97,212**	**123,576**	**158,577**
Total	**303,927**	**168,188**	**180,717**

* CCIRS: Cross Currency Interest Rate Swap (See Note 2.6.2).

** Incl.: FX, equity, commodity and index futures; FX forward; commodity and equity swap; FRA; FX option (see Note 2.6.2). Other derivative transactions also includes OTP-MOL share swap transaction in amount of 6,384 and 4,704 HUF billion in 2017 and 2016 respectively.

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

	2017	2016 (restated)	2015 (restated)
Within one year:			
variable interest	2,943	1,845	2,194
fixed interest	116,480	22,079	15,188
	119,423	**23,924**	**17,382**
Over one year:			
variable interest	14,214	3,111	5
fixed interest	60,490	14,037	3,614
	74,704	**17,148**	**3,619**
Non-interest bearing securities	9,507	3,024	706
Total	**203,634**	**44,096**	**21,707**
Securities held for trading denominated in HUF	81.86%	65.98%	97.96%
Securities held for trading denominated in foreign currency	18.14%	34.02%	2.04%
Securities held for trading total	**100%**	**100.00%**	**100.00%**
Government bonds denominated in HUF	96.69%	98.09%	99.35%
Government bonds denominated in foreign currency	3.31%	1.91%	0.65%
Government securities total	**100%**	**100.00%**	**100.00%**
Interest rates on securities held for trading	0.01%–9.25%	0.3%–9.5%	0.8%–10%
Average interest on securities held for trading	2.32%	1.01%	2.42%

NOTE 7: SECURITIES AVAILABLE-FOR-SALE (in HUF mn)

	2017	2016
Government bonds	1,190,235	1,040,541
Mortgage bonds	149,987	266,938
Interest bearing treasury bills	142,988	–
Other securities	234,150	163,949
listed securities	**116,541**	**72,820**
in HUF	**78,762**	**36,348**
in foreign currency	**37,779**	**36,472**
non-listed securities	**117,609**	**91,129**
in HUF	**48,410**	**48,522**
in foreign currency	**69,199**	**42,607**
Subtotal	**1,717,360**	**1,471,428**
Accrued interest	18,628	13,094
Impairment	(86)	–
Securities available-for-sale total	**1,735,902**	**1,484,522**
Securities available-for-sale denominated in HUF	82%	72%
Securities available-for-sale denominated in foreign currency	18%	28%
Securities available-for-sale total	**100%**	**100%**
Interest rates on securities available-for-sale denominated in HUF	0.63%–11%	1.25%–11%
Interest rates on securities available-for-sale denominated in foreign currency	(0.15%)–7.25%	0.05%–6.4%
Average interest on securities available-for-sale	1.92%	2.51%

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

	2017	2016
Balance as at 1 January	**–**	**–**
Reclassification	96	–
Provision for the period	(10)	–
Closing balance	**86**	**–**

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

	2017	2016
Within one year:		
variable interest	32,794	162,967
fixed interest	481,944	68,058
	514,738	**231,025**
Over one year:		
variable interest	86,473	43,631
fixed interest	1,084,450	1,175,497
	1,170,923	**1,219,128**
Non-interest bearing securities	31,699	21,275
Total	**1,717,360**	**1,471,428**

Certain fixed-rate mortgage bonds and other securities are hedged against interest rate risk (see Note 38).

	2017	2016
Net gain reclassified from equity to statement of profit or loss	7,117	11,723
Fair value of the hedged securities:		
Mortgage bonds	–	156,739
Government bonds	985,402	853,804
Other bonds	34,059	27,926
Total	**1,019,461**	**1,038,469**

NOTE 8: LOANS, NET OF ALLOWANCE FOR LOAN LOSSES (in HUF mn)

	2017	2016
Short-term loans and promissory notes (within one year)	1,081,438	934,288
Long-term loans and promissory notes (over one year)	1,127,978	1,053,829
Loans gross total	**2,209,416**	**1,988,117**
Accrued interest	5,138	6,155
Provision for impairment on loan losses	(69,508)	(91,335)
Total	**2,145,046**	**1,902,937**

An analysis of the loan portfolio by currency:

	2017	2016
In HUF	58%	62%
In foreign currency	42%	38%
Total	**100%**	**100%**

Interest rates of the loan portfolio are as follows:

	2017	2016
Loans denominated in HUF, with a maturity within one year	0%–37.5%	0%–34.6%
Loans denominated in HUF, with a maturity over one year	0%–37.5%	(0.4%)–37.5%
Loans denominated in foreign currency	(0.7%)–22.2%	(0.7%)–22.3%
Average interest on loans denominated in HUF	7.46%	8.88%
Average interest on loans denominated in foreign currency	2.31%	2.27%

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

	2017		2016	
Retail loans	**675,409**	**31%**	**631,096**	**32%**
Retail consumer loans	334,301	15%	272,530	14%
Retail mortgage backed loans*	178,228	8%	211,057	11%
Micro and small enterprises loans	162,880	7%	147,509	7%
Corporate loans	**1,534,007**	**69%**	**1,357,021**	**68%**
Loans to medium and large corporates	1,489,028	67%	1,323,220	67%
Municipality loans	44,979	2%	33,801	1%
Total	**2,209,416**	**100%**	**1,988,117**	**100%**

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

	2017	2016
Balance as at 1 January	**91,335**	**99,663**
Reclassification**	(1,397)	–
Provision for the period	76,050	47,249
Release of provision	(85,280)	(54,752)
Partial write-off***	(11,200)	(825)
Closing balance	**69,508**	**91,335**

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

	2017	2016
Provision for impairment on placement losses	(32)	3
Provision for impairment on loan losses	7,807	13,629
Total	**7,775**	**13,632**

The Bank sells non-performing loans without recourse at estimated fair value to a wholly owned subsidiary, OTP Factoring Ltd. (see Note 30).

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

	2017	2016
Investments in subsidiaries		
Controlling interest	1,502,999	1,305,273
Other investments	3,261	3,513
Subtotal	**1,506,260**	**1,308,786**
Provision for impairment	(538,846)	(639,917)
Total	**967,414**	**668,869**

Other investments contain certain securities accounted at cost. These instruments do not have a quoted market price in an active market and nor can their fair value be reliably measured.

* Incl. housing loans.
** Amount reclassified from Loans, Net of Allowance for Loan Losses to Other Assets.
*** See Note 2.11.

Significant subsidiaries

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

	2017		2016	
	% Held (direct/indirect)	Gross book value	% Held (direct/indirect)	Gross book value
OTP Bank JSC (Ukraine)	100%	311,390	100%	311,390
OTP banka Hrvatska d.d. (Croatia)	100%	205,349	100%	72,940
OTP Mortgage Bank Ltd.	100%	144,294	100%	144,294
OTP banka Srbija a.d. (Serbia)	98.90%	130,403	97.92%	91,159
OTP Bank Romania S.A. (Romania)	100%	102,514	100%	94,085
DSK Bank EAD (Bulgary)	100%	86,832	100%	86,832
JSC "OTP Bank" (Russia)	97.90%	74,330	97.87%	74,321
OTP Factoring Ukraine LLC (Ukraine)	100%	70,589	100%	70,589
Crnogorska komercijalna banka a.d. (Montenegro)	100%	58,484	100%	58,484
LLC Alliance Reserve (Russia)	100%	50,074	100%	50,074
OTP Holding Malta Ltd. (Malta)	100%	32,359	100%	32,359
Balansz Real Estate Institute Fund	100%	29,151	100%	29,151
Bank Center No. 1. Ltd.	100%	26,063	100%	21,063
OTP Factoring Ltd.	100%	25,411	100%	34,011
OTP Banka Slovensko a.s. (Slovakia)	99.38%	24,280	99.26%	17,125
Air-Invest Ltd.	100%	21,748	100%	10,498
Merkantil Bank Ltd.	100%	21,415	100%	23,241
Inga Kettő Ltd.	100%	17,892	100%	17,892
OTP Life Annuity Ltd.	100%	15,300	100%	15,300
OTP Real Estate Ltd.	100%	10,023	100%	10,023
Monicomp Ltd.	100%	9,234	100%	9,234
OTP Real Estate Leasing Ltd.	100%	7,206	100%	7,206
OTP Buildings s.r.o (Romania)	100%	4,594	–	–
R.E. Four d.o.o. (Serbia)	100%	4,357	100%	4,357
OTP Venture Capital Fund	100%	3,000	100%	3,000
Fordulat Venture Capital Fund	50%	2,739	50%	2,426
OTP Funds Servicing and Consulting Ltd.	100%	2,469	100%	2,469
OTP Holding Ltd. (Cyprus)	100%	2,000	100%	2,000
OTP Building Society Ltd.	100%	1,950	100%	1,950
OTP Fund Management Ltd.	100%	1,653	100%	1,653
OTP Hungaro-Projekt Ltd.	100%	1,644	100%	1,954
OTP Real Estate Investment Fund Management Ltd.	100%	1,352	100%	1,352
CIL Babér Ltd.	100%	1,025	100%	1,225
Other		1,875		1,616
Total		**1,502,999**		**1,305,273**

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

	2017	2016
Balance as at 1 January	**639,917**	**591,781**
Reclassification*	(35,871)	–
Provision for the period	44,770	48,136
Release of provision	(109,970)	–
Closing balance	**538,846**	**639,917**

The Bank decided that the recoverable amount is determined based on fair value less cost of disposal. When the Bank prepares impairment tests of the subsidiaries, these ones are based on discounted cash-flow calculation methods that shows the same result; however they represent different economical. 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

* Amount reclassified from Investments in subsidiaries, Associates and Other Investments to Other Assets and Securities Available for Sale.

the initial invested capital and the present value of the economic profit that the companies are expected to generate in the future.

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

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

	2017	2016
OTP Bank JSC (Ukraine)	272,824	270,105
OTP Factoring Ukraine LLC (Ukraine)	70,451	68,172
OTP Mortgage Bank Ltd.	65,096	117,294
OTP banka Srbija a.d. (Serbia)	63,233	63,233
Crnogorska komercijalna banka a.d. (Montenegro)	23,324	26,714
Air-Invest Ltd.	10,491	–
OTP Life Annuity Ltd.	10,102	–
OTP Real Estate Leasing Ltd.	7,206	7,206
R.E. Four d.o.o. (Serbia)	3,763	–
Merkantil Bank Ltd.	2,585	21,641
OTP Real Estate Ltd.	2,200	–
OTP Factoring Ltd.	–	32,600
OTP banka Hrvatska d.d. (Croatia)	–	9,232
Total	**531,275**	**616,197**

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

	2017	2016
DSK Bank EAD (Bulgaria)	44,825	51,483
OTP Mortgage Bank Ltd.	20,623	30,960
OTP Fund Management Ltd.	5,159	475
OTP Holding Ltd. (Cyprus)	4,509	3,604
OTP Building Society Ltd.	1,200	140
Other	3,057	807
Subtotal	**79,373**	**87,469**
Dividend from shares held-for-trading	3,141	2,998
Dividend from shares available for sale	124	–
Total	**82,638**	**90,467**

Significant associates

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

As at 31 December 2017:

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

* Based on unaudited financial statements.

As at 31 December 2016:

	D-ÉG Thermoset Ltd.	Szallas.hu Ltd.	Company for Cash Services LLC	Suzuki Pénzügyi Szolgáltató Ltd.	Total
Assets	4,862	1,148	2,302	579	**8,891**
Liabilities	4,004	543	103	–	**4,650**
Shareholders' equity	858	605	2,199	579	**4,241**
Total income	**4,399**	**2,647**	**1,152**	**2**	**8,200**
% Held	30%	0.1%	20%	50%	

Capital transactions in subsidiaries are as follows:

	Date of transaction	Monetary item	Registered capital		Change in capital reserve	Amount of transaction
			Before transaction	After transaction		
OTP Real Estate Leasing Ltd.	16/02/2017	HUF million	164	214	–	**50**
Air-Invest Ltd.	01/06/2017	HUF million	253	400	–	**147**
OTP banka Hrvatska d.d.	06/06/2017	HRK million	822	3,994	–	**3,171**
OTP Factoring Ltd.	12/12/2017	HUF million	300	500	23,800	**24,000**
OTP banka Srbija	04/01/2018	RSD million	16,701	31,608	–	**14,906**
OTP Banka Slovensko	08/01/2018	EUR million	89	117	–	**23**
OTP Bank Romania SA	09/01/2018	RON million	1,254	1,379	–	**125**
Bank Center No. 1. Ltd.	16/01/2018	HUF million	9,750	11,500	–	**1,750**

On 2 May 2017, 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, the financial closure of the transaction has been completed. Splitska banka is the 5th largest player on the Croatian banking market and as a universal bank it has been active in the retail and corporate segment as well.

In July 2017 OTP Bank Romania S.A., the Romanian subsidiary of OTP Bank signed an acquisition agreement on purchasing a 99.28% shareholding held in the Romanian Banca Romaneasca S.A. by National Bank of Greece S.A and certain other Romanian exposures held by different subsidiaries of National Bank of Greece S.A. The Competition Office has approved the transaction.

The financial closing of the deal is subject to the necessary regulatory approvals by the central bank.

OTP banka Srbija a.d. Novi Sad, the Serbian subsidiary of OTP Bank 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. The agreed consideration for the share capital of VOBAN and NBG Leasing amounts to EUR 125 million. VOBAN is a universal bank it has been active in the retail and corporate segment as well. The financial closure of the transaction has been completed on 1 December 2017.

NOTE 10: SECURITIES HELD-TO-MATURITY (in HUF mn)

	2017	2016
Government bonds	1,021,441	837,256
Mortgage bonds	4,746	4,778
Subtotal	**1,026,187**	**842,034**
Accrued interest	17,592	16,116
Total	**1,043,779**	**858,150**

Interest conditions and the remaining maturities of held-to-maturity investments can be analysed as follows:

	2017	2016
Within one year:		
fixed interest	59,004	84,953
	59,004	**84,953**
Over one year:		
fixed interest	967,183	757,081
	967,183	**757,081**
Total	**1,026,187**	**842,034**

The distribution of the held-to-maturity securities by currency:

	2017	2016
Securities held-to-maturity denominated in HUF	100%	100%
Securities held-to-maturity total	**100%**	**100%**
Interest rates on securities held-to-maturity	1.75%–9.48%	2.5%–9.48%
Average interest on securities held-to-maturity denominated in HUF	4.79%	5.01%

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

For the year ended 31 December 2017:

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

For the year ended 31 December 2016:

	Intangible assets	Property	Office equipment and vehicles	Construction in progress	Total
Cost					
Balance as at 1 January	**131,539**	**69,019**	**67,925**	**3,017**	**271,500**
Additions	18,263	3,204	6,841	9,087	37,395
Disposals	(36,906)	(2,571)	(4,321)	(9,366)	(53,164)
Balance as at 31 December	**112,896**	**69,652**	**70,445**	**2,738**	**255,731**
Depreciation and Amortization					
Balance as at 1 January	**99,101**	**20,061**	**56,460**	**–**	**175,622**
Charge for the year	13,046	1,815	7,011	–	21,872
Disposals	(27,018)	(927)	(3,946)	–	(31,891)
Balance as at 31 December	**85,129**	**20,949**	**59,525**	**–**	**165,603**
Net book value					
Balance as at 1 January	**32,438**	**48,958**	**11,465**	**3,017**	**95,878**
Balance as at 31 December	**27,767**	**48,703**	**10,920**	**2,738**	**90,128**

NOTE 12: INVESTMENT PROPERTIES (in HUF mn)

For the year ended 31 December 2017 and 2016:

	2017	2016
Cost		
Balance as at 1 January	**2,811**	**2,803**
Additions	150	8
Disposals	–	–
Balance as at 31 December	**2,961**	**2,811**
Depreciation and Amortization		
Balance as at 1 January	**544**	**509**
Charge for the year	43	35
Disposals	–	–
Balance as at 31 December	**587**	**544**
Net book value		
Balance as at 1 January	**2,267**	**2,294**
Balance as at 31 December	**2,374**	**2,267**

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

Income and expenses:

	2017	2016
Rental income	1	60
Depreciation	43	55

NOTE 13: OTHER ASSETS* (in HUF mn)

	2017	2016 (restated)	2015 (restated)
Prepayments and accrued income	24,172	26,609	19,319
Receivables from card operations	22,509	16,572	7,865
Trade receivables	13,961	3,883	3,778
Due from Hungarian Government from interest subsidies	4,170	4,273	1,197
Receivables from OTP Mortgage Bank Ltd.	4,098	10,276	13,734
Receivables from investment services	3,272	5,634	8,769
Other advances	2,127	1,808	2,871
Inventories	1,032	567	457
Advances for securities and investments	636	626	631
Receivables from current income tax	135	400	11,381
Credits sold under deferred payment scheme	37	13,591	2
Other	21,362	19,647	13,477
Subtotal	**97,511**	**103,886**	**83,481**
Provision for impairment on other assets**	(17,595)	(5,804)	(6,550)
Other assets total	**79,916**	**98,082**	**76,931**
Fair value of derivative financial instruments designated as fair value hedge	10,148	7,886	33,768
Deferred tax assets***	7,991	27,603	41,905
Other highlighted line items	**18,139**	**35,489**	**75,673**
Total	**98,055**	**133,571**	**152,604**

* Other assets – except income tax receivable, and fair value of derivative financial instruments designated as fair value hedge – are expected to be recovered or settled no more than twelve months after the reporting period.

** Provision for impairment on other assets mainly consists of provision for trade receivables and inventories.

*** See details in Note 26.

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

	2017	2016
CCIRS designated as fair value hedge	6,639	6,887
Interest rate swaps designated as fair value hedge	3,509	999
Total	**10,148**	**7,886**

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

	2017	2016
Balance as at 1 January	**5,804**	**6,550**
Reclassification	37,452	–
Charge for the period	6,573	273
Release of provision	(32,234)	(1,019)
Closing balance	**17,595**	**5,804**

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

	2017	2016
Within one year:		
In HUF	282,757	167,402
In foreign currency	100,396	115,332
	383,153	**282,734**
Over one year:		
In HUF	126,367	269,348
In foreign currency	177,829	89,873
	304,196	**359,221**
Subtotal	**687,349**	**641,955**
Accrued interest	7,184	4,316
Total*	**694,533**	**646,271**

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

	2017	2016
Within one year:		
In HUF	(18%)–0.9%	0%–0.9%
In foreign currency	(0.38%)–1.91%	0%–0.76%
Over one year:		
In HUF	0%–2.67%	0%–2.72%
In foreign currency	(0.27%)–0.5%	(0.1%)–10.85%
Average interest on amounts due to banks in HUF	2.12%	2.3%
Average interest on amounts due to banks in foreign currency	2.90%	1.99%

* It contains the loans lent among the frame of Funding for Growth Scheme, which are accounted as government grant regulated by IAS 20 Standard. See details in Note 41.

NOTE 15: DEPOSITS FROM CUSTOMERS (in HUF mn)

	2017	2016
Within one year:		
In HUF	4,266,829	3,777,547
In foreign currency	901,876	936,403
	5,168,705	**4,713,950**
Over one year:		
In HUF	22,633	26,831
	22,633	**26,831**
Subtotal	**5,191,338**	**4,740,781**
Accrued interest	1,531	4,270
Total	**5,192,869**	**4,745,051**

Interest rates on deposits from customers are as follows:

	2017	2016
Within one year in HUF	(5%)–9.69%	0%–9.65%
Over one year in HUF	0%–10.10%	0%–9.65%
In foreign currency	(0.4%)–12.25%	0%–9.7%
Average interest on deposits from customers in HUF	0.08%	0.31%
Average interest on deposits from customers in foreign currency	0.15%	0.18%

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

	2017		2016	
Retail deposits	**3,181,424**	**61%**	**2,904,762**	**61%**
Household deposits	2,562,571	49%	2,372,751	50%
Deposits micro and small enterprises	618,853	12%	532,011	11%
Corporate deposits	**2,009,914**	**39%**	**1,836,019**	**39%**
Deposits to medium and large corporates	1,476,760	28%	1,425,572	30%
Municipality deposits	533,154	10%	410,447	9%
Total	**5,191,338**	**100%**	**4,740,781**	**100%**

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

	2017	2016
Within one year:		
In HUF	12,930	18,494
In foreign currency	6,818	36,002
	19,748	**54,496**
Over one year:		
In HUF	40,538	49,432
In foreign currency	1	198
	40,539	**49,630**
Subtotal	**60,287**	**104,126**
Accrued interest	17	(23)
Total	**60,304**	**104,103**

Interest rates on liabilities from issued securities are as follows:

	2017	2016
Issued securities denominated in HUF	0.2%–1.75%	0.01%–7%
Issued securities denominated in foreign currency	1%–1.67%	0.1%–0.8%
Average interest on issued securities denominated in HUF	0.09%	1.11%
Average interest on issued securities denominated in foreign currency	0.44%	0.96%

Issued securities denominated in foreign currency as at 31 December 2017:

	Name	Date of issuance	Maturity	Currency	Nominal value in FX million	Nominal value in HUF million	Interest conditions (in % actual)		Hedged
1	OTP_VK1_18/7	29/09/2017	29/09/2018	USD	4.49	1,162	1.00	floating	not hedged
2	OTP_VK1_18/2	03/03/2017	03/03/2018	USD	4.25	1,099	1.45	floating	not hedged
3	OTP_VK1_18/4	02/06/2017	02/06/2018	USD	4.18	1,082	1.67	floating	not hedged
4	OTP_VK1_18/8	17/11/2017	17/11/2018	USD	3.04	788	1.00	floating	not hedged
5	OTP_VK1_18/1	20/01/2017	20/01/2018	USD	2.78	721	1.46	floating	not hedged
6	OTP_VK1_18/3	13/04/2017	13/04/2018	USD	2.48	641	1.53	floating	not hedged
7	OTP_VK1_18/5	14/07/2017	14/07/2018	USD	2.24	579	1.00	floating	not hedged
8	OTP_VK1_18/9	20/12/2017	20/12/2018	USD	1.45	376	1.00	floating	not hedged
9	OTPX2018F	19/12/2013	21/12/2018	EUR	0.62	192			hedged
10	OTP_VK1_18/6	04/08/2017	04/08/2018	USD	0.69	179	1.00	floating	not hedged
	Subtotal issued securities in FX					**6,819**			
	Unamortized premium					(1)			
	Fair value hedge adjustment					1			
	Total					**6,819**			

Term Note Program in the value of HUF 200 billion for the year of 2016/2017

On 5 July 2016 OTP 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 3 August 2016 the prospectus of Term Note Program and the disclosure as at 10 August 2016.
The prospectus is valid for 12 months following the disclosure.
The Issuer can initiate to introduce the bonds issued under the program to the Budapest, Slovakian, Romanian and Bulgarian Stock Exchanges without any obligation.

Certain structured bonds are hedged by interest rate swaps which may transfer to a transferee a fixed interest rate and enter into an interest rate swap with the transferee to receive a fixed interest rate and pay a variable interest rate and 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 change in the HUF/EUR foreign exchange rate and the risk of change in the quoted interest rates of EUR and HUF. The interest rate risk and foreign exchange risk related to these securities are hedged with EUR and HUF interest rate swap ("IRS") transactions, where the fixed interests were swapped to payments linked to 3 month HUF BUBOR and EURIBOR, resulting in a decrease in the interest rate and foreign exchange exposure of issued securities.

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.

Issued securities denominated in HUF as at 31 December 2017:

	Name	Date of issuance	Maturity	Nominal value in HUF million	Interest conditions (in % actual)	Hedged
1	OTPX2019D	22/03/2013	21/03/2019	3,685	indexed	hedged
2	OTPX2020E	18/06/2014	22/06/2020	3,524	indexed	hedged
3	OTPX2018B	22/03/2012	22/03/2018	3,488	indexed	hedged
4	OTPX2020F	10/10/2014	16/10/2020	3,093	indexed	hedged
5	OTPX2018C	18/07/2012	18/07/2018	2,948	indexed	hedged
6	OTPX2019E	28/06/2013	24/06/2019	2,916	indexed	hedged
7	OTPX2020G	15/12/2014	21/12/2020	2,627	indexed	hedged
8	OTPX2018D	29/10/2012	26/10/2018	2,543	indexed	hedged
9	OTPX2018E	28/12/2012	28/12/2018	2,502	indexed	hedged
10	OTPRF2020C	11/11/2010	05/11/2020	2,353	indexed	hedged
11	OTPRF2021B	20/10/2011	25/10/2021	2,324	indexed	hedged
12	OTPRF2021A	05/07/2011	13/07/2021	2,199	indexed	hedged
13	OTPRF2020A	12/07/2010	20/07/2020	1,975	indexed	hedged
14	OTPRF2022A	22/03/2012	23/03/2022	1,593	indexed	hedged
15	OTPRF2020B	12/07/2010	20/07/2020	1,131	indexed	hedged
16	OTP_DK_18/I	31/05/2017	31/05/2018	781	discount	not hedged
17	OTPRF2023A	22/03/2013	24/03/2023	553	indexed	hedged
18	OTPRF2022B	22/03/2012	23/03/2022	538	indexed	hedged
19	OTPRF2022E	29/10/2012	31/10/2022	521	indexed	hedged
20	OTPRF2021C	21/12/2011	30/12/2021	424	indexed	hedged
21	OTPRF2022F	28/12/2012	28/12/2022	403	indexed	hedged
22	OTPX2018A	03/01/2012	09/01/2018	391	indexed	hedged
23	OTPX2023A	22/03/2013	24/03/2023	363	indexed	hedged
24	OTPX2024B	10/10/2014	16/10/2024	339	indexed	hedged
25	OTPX2021D	21/12/2011	27/12/2021	310	indexed	hedged
26	OTPX2020A	25/03/2010	30/03/2020	301	indexed	hedged
27	OTPX2022D	28/12/2012	27/12/2022	297	indexed	hedged
28	OTPRF2021D	21/12/2011	30/12/2021	292	indexed	hedged
29	OTPX2020B	28/06/2010	09/07/2020	290	indexed	hedged
30	OTPX2024C	15/12/2014	20/12/2024	287	indexed	hedged
31	OTPX2021B	17/06/2011	21/06/2021	274	indexed	hedged
32	OTPX2019C	14/12/2009	20/12/2019	268	indexed	hedged
33	OTPX2021C	19/09/2011	24/09/2021	266	indexed	hedged
34	OTPX2019B	05/10/2009	14/10/2019	265	indexed	hedged
35	OTPX2024A	18/06/2014	21/06/2024	256	indexed	hedged
36	OTPX2022A	22/03/2012	23/03/2022	252	indexed	hedged
37	OTPX2021A	01/04/2011	01/04/2021	250	indexed	hedged
38	OTPX2023B	28/06/2013	26/06/2023	240	indexed	hedged
39	OTPX2022C	29/10/2012	28/10/2022	237	indexed	hedged
40	OTPX2019A	25/06/2009	01/07/2019	231	indexed	hedged
41	OTPX2022B	18/07/2012	18/07/2022	215	indexed	hedged
42	OTPRF2022D	28/06/2012	28/06/2022	194	indexed	hedged
43	OTPX2020D	16/12/2010	18/12/2020	177	indexed	hedged
44	OTPX2020C	11/11/2010	05/11/2020	176	indexed	hedged
45	OTPRF2022C	28/06/2012	28/06/2022	146	indexed	hedged
46	OTP_DK_18/I	31/05/2017	31/05/2018	52	discount	not hedged
47	OTPRF2021E	21/12/2011	30/12/2021	48	indexed	hedged
48	OTPX2019B	05/10/2009	14/10/2019	48	indexed	hedged
49	Other			226		
	Subtotal issued securities in HUF			**48,812**		
	Unamortized premium			(1)		
	Fair value hedge adjustment			4,657		
	Total issued securities in HUF			**53,468**		
	Accrued interest			17		
	Total issued securities			**60,304**		

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

Negative fair value of financial liabilities at fair value through profit or loss classified as held for trading by deal types:

	2017	2016
CCIRS and mark-to-market CCIRS	22,759	36,189
IRS	30,871	33,031
Foreign currency swaps	14,326	13,351
Other derivative contracts*	11,589	14,097
Total	**79,545**	**96,668**

NOTE 18: OTHER LIABILITIES** (in HUF mn)

	2017	2016 (restated)	2015 (restated)
Liabilities from investment services	52,565	72,101	39,399
Liabilities from customer's credit card payments	23,340	12,837	5,804
Accrued expenses	21,710	29,448	25,664
Provision on off-balance sheet commitments, contingent liabilities	19,759	15,297	51,411
Salaries and social security payable	15,919	17,426	16,817
Accounts payable	12,455	17,622	20,038
Technical accounts	10,313	3,315	7,589
Current income tax payable	8,337	7,948	6,044
Liabilities related to housing loans	7,799	6,471	1,475
Liabilities due to short positions	5,221	21,552	7,453
Refunded liabilities ordered by law related to customer loans	932	961	995
Liabilities connected to loans for collection	766	814	875
Giro clearing accounts	384	273	323
Other clearing accounts	47	–	5,820
Dividends payable	43	34	63
Other	13,770	10,725	7,770
Subtotal	**193,360**	**216,824**	**197,540**
Fair value of derivative financial instruments designated as fair value hedge	17,179	21,434	35,701
Total	**210,539**	**238,258**	**233,241**

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

	2017	2016
Provision for losses on other off-balance sheet commitments and contingent liabilities	10,007	11,401
Provision for losses on commitments related to investment in Serbian Factoring Ltd.***	5,214	–
Provision for litigation	1,207	362
Provision for retirement pension and severance pay	1,000	1,000
Provision on other liabilities	2,331	2,534
Total	**19,759**	**15,297**

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

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

*** The Bank will purchase investment of OTP Faktoring Ltd. in OTP Serbia Factoring d.o.o.

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

	2017	2016
CCIRS	17,179	20,607
IRS	–	827
Total	**17,179**	**21,434**

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

	2017	2016
Opening balance	**15,297**	**51,411**
Provision for the period	32,980	16,460
Release of provision	(28,518)	(52,574)
Closing balance	**19,759**	**15,297**

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

	2017	2016
Over one year:		
In foreign currency	108,377	109,719
Subtotal	**108,377**	**109,719**
Accrued interest	458	639
Total	**108,835**	**110,358**

Interest rates on subordinated bonds and loans are as follows:

	2017	2016
Subordinated bonds and loans denominated in foreign currency	2.67%	2.69%
Average interest on subordinated bonds and loans denominated in foreign currency	2.78%	6.84%

Subordinated loans and bonds are detailed as follows as at 31 December 2017:

Type	Nominal value	Date of issuance	Date of maturity	Issue price	Interest conditions	Interest rate as of 31 December 2017
Subordinated bond	EUR 350.1 million	07/11/2006	Perpetual	99.375%	Three-month EURIBOR + 3%, variable after year 10 (payable quarterly)	2.671%

NOTE 20: SHARE CAPITAL (in HUF mn)

	2017	2016
Authorized, issued and fully paid:		
Ordinary shares	28,000	28,000

* See Note 38 for details.

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

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

In 2017 the Bank paid a dividend of HUF 53,200 million from the profit of the year 2016, which means HUF 190 dividend/share payment. The Bank has established general reserve in amount of 25,155 HUF million, and a dividend of HUF 61,320 million is expected to be proposed by the Management from the profit of the year 2017, which means HUF 219 dividend payable per share to the shareholders.

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

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

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

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

The equity correlation table of the Bank based on paragraph 114/B of Act on Accounting as at 31 December 2017:

31 December 2017 Closing	Share Capital	Capital reserve	Share-based payment reserve	Retained earnings and reserves	Option reserve	Treasury Shares	Revaluation reserve	Tied-up reserve	Net profit for the year	Total
Components of Share-holder's equity in accordance with IFRS	**28,000**	**52**	**31,835**	**1,430,378**	**(55,468)**	**(9,540)**	**–**	**–**	**–**	**1,425,257**
Unused portion of reserve for developments	–	–	–	(973)	–	–	–	973	–	–
Other comprehensive income	–	–	–	(70,200)	–	–	70,200	–	–	–
Option reserve	–	(55,468)	–	–	55,468	–	–	–	–	–
Treasury shares	–	(9,540)	–	–	–	9,540	–	–	–	–
Share based payments	–	31,835	(31,835)	–	–	–	–	–	–	–
Net profit for the year	–	–	–	(251,550)	–	–	–	–	251,550	–
General reserve	–	–	–	(59,124)	–	–	–	59,124	–	–
Components of Shareholder's equity in accordance with paragraph 114/B of Act on Accounting	**28,000**	**(33,121)**	**–**	**1,048,531**	**–**	**–**	**70,200**	**60,097**	**251,550**	**1,425,257**

The equity correlation table of the Bank based on paragraph 114/B of Act on Accounting as at 1 January 2017:

1 January 2017 Opening	Share Capital	Capital reserve	Share-based payment reserve	Retained earnings and reserves	Option reserve	Treasury Shares	Revaluation reserve	Tied-up reserve	Net profit for the year	Total
Components of Share-holder's equity in accordance with IFRS	**28,000**	**52**	**28,237**	**1,220,311**	**(55,468)**	**(8,709)**	**–**	**–**	**–**	**1,212,423**
Unused portion of reserve for developments	–	–	–	(636)	–	–	–	636	–	–
Other comprehensive income	–	–	–	(53,662)	–	–	53,662	–	–	–
Option reserve	–	(55,468)	–	–	55,468	–	–	–	–	–
Treasury shares	–	(8,709)	–	–	–	8,709	–	–	–	–
Share based payments	–	28,237	(28,237)	–	–	–	–	–	–	–
Net profit for the year	–	–	–	(172,378)	–	–	–	–	172,378	–
General reserve	–	34,289	–	(34,289)	–	–	–	–	–	–
Components of Shareholder's equity in accordance with paragraph 114/B of Act on Accounting	**28,000**	**(1,599)**	**–**	**959,346**	**–**	**–**	**53,662**	**636**	**172,378**	**1,212,423**

	2017	**2016**
Retained earnings	1,048,531	959,346
Net profit for the year	251,550	172,378
Untied retained earnings	**1,300,081**	**1,131,724**

NOTE 22: TREASURY SHARES (in HUF mn)

	2017	2016
Nominal value (ordinary shares)	100	126
Carrying value at acquisition cost	9,540	8,709

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:

	2017	2016
Number of shares as at 1 January	**1,263,462**	**1,572,937**
Additions	1,441,203	1,750,152
Disposals	(1,702,209)	(2,059,627)
Number of shares at the end of the period	**1,002,456**	**1,263,462**

Change in carrying value:

	2017	2016
Balance as at 1 January	**8,709**	**9,153**
Additions	13,510	11,982
Disposals	(12,679)	(12,426)
Closing balance	**9,540**	**8,709**

NOTE 23: PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES (in HUF mn)

	2017	2016
Provision for impairment on loan losses		
Provision for the period	76,050	47,249
Release of provision	(87,202)	(54,752)
Provision on loan losses	18,959	21,132
	7,807	**13,629**
Provision for impairment on placement losses		
(Release of provision)/Provision for the period	(32)	3
	(32)	**3**
Provision for impairment on loan and placement losses	**7,775**	**13,632**

NOTE 24: NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn)

Income from fees and commissions:

	2017	2016
Deposit and account maintenance fees and commissions	84,667	78,041
Fees and commissions related to the issued bank cards	36,813	31,366
Fees and commissions related to security trading	28,235	26,154
Fees related to the cash withdrawal	23,253	21,465
Fees and commissions received from OTP Mortgage Bank Ltd.	14,254	15,890
Fees and commissions related to lending	8,309	6,639
Net fee income related to card insurance services and loan agreements	6,966	3,254
Other	4,262	6,922
Total	**206,759**	**189,731**

Expenses from fees and commissions:

	2017	2016
Other fees and commissions related to issued bank cards	12,285	10,784
Interchange fee	5,628	4,632
Fees and commissions related to lending	4,446	4,247
Insurance fees	3,058	128
Fees and commissions related to security trading	1,323	1,175
Cash withdrawal transaction fees	1,157	1,065
Fees and commissions relating to deposits	935	904
Money market transaction fees and commissions	351	84
Postal fees	250	245
Other	922	2,990
Total	**30,355**	**26,254**
Net profit from fees and commissions	**176,404**	**163,477**

NOTE 25: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF mn)

Other operating income	2017	2016
Gains on sale of receivables	5,190	–
Gains on transactions related to property activities	222	208
Income from non-financing services	5	5
Fine refund	–	3,960
Other	4,573	4,410
Total	**9,990**	**8,583**

Net other operating income/(expenses)	2017	2016
Financial support for sport association and organization of public utility	(7,331)	(8,731)
(Provision)/Release of provision for off-balance sheet commitments and contingent liabilities	(4,462)	34,516
Non-repayable assets contributed	(1,156)	(921)
Fine imposed (by Competition Authority, Consumer Protection Authority)	(18)	(67)
Release of provision on contingent liabilities due to regulations related to customer loans	–	1,598
Income from regulations related to customer loans	–	5
Release of provision/(Provision for impairment) on other assets	(25,664)	(669)
Losses on other assets	2,408	742
Release of provision/(Provision for impairment) on investments in subsidiaries	65,200	(48,136)
Other	(4,130)	(7,042)
Total	**71,359**	**(28,851)**

Other administrative expenses	2017	2016
Personnel expenses		
Wages	(64,115)	(59,192)
Taxes related to personnel expenses	(16,407)	(18,969)
Other personnel expenses	(9,922)	(10,559)
Subtotal	**(90,444)**	**(88,720)**
Depreciation and amortization:	**(20,486)**	**(21,872)**

Other administrative expenses	2017	2016
Taxes, other than income tax*	(67,055)	(76,241)
Administration expenses, including rental fees	(25,195)	(22,869)
Services	(28,603)	(23,072)
Advertising	(7,855)	(6,694)
Professional fees	(12,747)	(10,671)
Subtotal	**(141,455)**	**(139,547)**
Total	**(252,385)**	**(250,139)**

* Special tax of financial institutions was paid by OTP Bank in the amount of HUF 5.5 and 11 billion for the year 2017 and 2016, recognized as an expense thus decreased the corporate tax base. In the year ended 31 December 2017 financial transaction duty was paid by the Bank in the amount of HUF 50 billion.

NOTE 26: INCOME TAXES (in HUF mn)

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

A breakdown of the income tax expense is:

	2017	2016
Current tax expense	878	1,772
Deferred tax expense	17,989	19,324
Total	**18,867**	**21,096**

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

	2017	2016
Balance as at 1 January	**27,603**	**41,905**
Deferred tax expense in profit or loss	(17,989)	(19,324)
Deferred tax expense in other comprehensive income	(1,623)	5,022
Closing balance	**7,991**	**27,603**

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

	2017	2016
Unused tax allowance	11,452	21,945
Refundable tax in accordance with Acts on Customer Loans	2,294	5,239
Goodwill	1,268	2,535
Tax accrual caused by unused negative taxable income	873	11,041
Fair value adjustment of derivative financial instruments	188	–
Amounts unenforceable by tax law	120	138
Repurchase agreements and security lending	–	1,964
Difference in reserves under HAS and IFRS	–	1,012
Fair value correction related to customer loan contracts	–	28
Difference in accounting for finance leases	–	1
Deferred tax assets	**16,195**	**43,903**
Fair value adjustment of held for trading and available-for-sale securities	(6,817)	(6,771)
One-off effect arising on transition to IFRS*	(896)	–
Difference in depreciation and amortization	(315)	(814)
Effect of using effective interest rate method	(176)	(678)
Provision for impairment on investments	–	(5,051)
Fair value adjustment of derivative financial instrument	–	(1,500)
Effect of redemption of issued securities	–	(625)
Valuation of equity instrument (ICES)	–	(438)
OTP–MOL share swap transaction	–	(423)
Deferred tax liabilities	**(8,204)**	**(16,300)**
Net deferred tax asset	**7,991**	**27,603**

A reconciliation of the income tax expense is as follows:

	2017	2016
Profit before income tax	270,417	193,474
Income tax at statutory tax rate (9% in 2017, 19% in 2016)	24,338	36,760

* It contains provision on supplementary payments in relation with OT P Faktoring Ltd., Air Invest Llc. and CIL Babér Llc.

Income tax adjustments due to permanent differences are as follows:

	2017	2016
Deferred use of tax allowance	10,492	(4,124)
Share-based payment	324	671
Provision on expected liability	–	(12,014)
Treasury share transaction	–	(991)
Differences in carrying value of subsidiaries	–	12,589
OTP–MOL share swap transaction	–	411
Tax refund in accordance with Acts on Customer Loans	–	1,102
Effect of the tax rate change	–	5,700
Amounts unenforceable by tax law	(481)	123
Differences in transition to IFRS	(3,503)	–
Use of tax allowance in the current year	(6,964)	(1,919)
Dividend income	(7,437)	(17,175)
Other	2,098	(37)
Income tax	**18,867**	**21,096**
Effective tax rate	7.0%	10.9%

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn)

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
Financial instruments may result in certain risks to the Bank. The most significant risks the Bank faces include:

27.1 Credit risk

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

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

The Bank represents non-performing (impaired) loans based on 90 days delay. At the same time during the determination of impairment other information available for the Bank is considered besides delay payment. During determination of net profit for the year foreseeable risks and probable losses are considered as recognising impairment and provision. Impairment and provisions are recognised independently from net profit for the year.

The Bank applies at recognition of impairment and provisions in accordance with the principles of IFRS and instructions of Remeasurement policy of OTP Bank as part of the accounting policy.

27.1.1 Analysis by loan types

Classification into risk classes

Exposures with small amounts (retail and micro and small enterprises sector) are subject to **collective valuation** method, which is a simplified assessment. The exposures subject to collective valuation method are measured based on past due days and restructured status of risk management contracts, while exposures subject to micro and small enterprises are measured based on certain insolvency behaviour (bankruptcy proceedings, liquidation etc.). Loan exposures were presented in three classes (A: 0–90 days past due – DPD, B: 91–360 DPD, C: over 360 days past due) in the following.

The Bank intends – where a great number of items and sufficient long-term historical data is available – to apply models on statistical basis. The impairment is calculated according to the possibility of listing the loan into default categories examined on the base of objective valuation criteria (delay of payment, change of exchange) and the expected recovery from the collecting. If the loss of the exposure can't be modelled reliably, the impairment is determined by expert keys.

When applying the individual evaluation method, the incurred loss of each item is determined based on the consideration of all of the following criteria:

- the credit rating of the customer or the partner: the financial position, stability and income-generating capacity affected by the financial or investment service and issuer of the security, and any changes thereto;
- compliance with the rules of repayment (delay): delays in the repayment of the loan principal and its interests;
- the country risk relating to the customer (both political and transfer risks) and any changes thereto;
- the value of collaterals, their liquidity and accessibility, and any changes therein;
- the transferability and liquidity of the exposures (the market conditions of supply and demand, the available market prices and participation in the shareholders` equity of the issuer in proportion to the investment);
- the future payment obligation recognized as a loss arising from the exposure.

The expected future losses of the individually assessed item are determined by taking into consideration the above listed objective valuation aspects. The expected loss, the volume of the necessary reserve, is defined by taking into account the value of the collateral and compared with the value of the collateral relating to the exposure. The expected recovery is calculated by applying the effective interest rate method and the discounted cash-flow method. The impairment accounted for the item should be completed to this level by increasing the amount of the impairment or by releasing the impairment as appropriate.

An analysis of the gross loan portfolio by loan types and DPD categories is as follows:

As at 31 December 2017:

Loan type	DPD 0–90	DPD 91–360	DPD 360+	Total carrying amount/allowance
Placements with other banks	**978,098**	–	–	**978,098**
Total placements with other banks	**978,098**	–	–	**978,098**
Allowance on placements with other banks	–	–	–	–
Consumer loans	331,414	1,519	2,145	335,078
Mortgage and housing loans	166,451	4,221	7,970	178,642
Micro and small enterprises loans	160,845	1,761	653	163,259
Loans to medium and large corporates	1,471,773	2,645	18,073	1,492,491
Municipal loans	45,084	–	–	45,084
Gross loan portfolio total	**2,175,567**	**10,146**	**28,841**	**2,214,554**
Allowance on loans	(41,586)	(5,419)	(22,503)	(69,508)
Net portfolio total	**3,112,079**	**4,727**	**6,338**	**3,123,144**
Total placements with other banks				**978,098**
Total loans				**2,145,046**
Total				**3,123,144**

As at 31 December 2016:

Loan type	DPD 0–90	DPD 91–360	DPD 360+	Total carrying amount/allowance
Placements with other banks	**915,686**	**–**	**–**	**915,686**
Total placements with other banks	**915,686**	**–**	**–**	**915,686**
Allowance on placements with other banks	**(32)**	**–**	**–**	**(32)**
Consumer loans	268,463	2,280	2,647	273,390
Mortgage and housing loans	197,234	4,480	9,975	211,689
Micro and small enterprises loans	145,813	1,485	678	147,976
Loans to medium and large corporates	1,275,720	10,103	41,485	1,327,308
Municipal loans	33,759	139	11	33,909
Gross loan portfolio total	**1,920,989**	**18,487**	**54,796**	**1,994,272**
Allowance on loans	(38,680)	(10,500)	(42,155)	(91,335)
Net portfolio total	**2,797,963**	**7,987**	**12,641**	**2,818,591**
Total placements with other banks				**915,654**
Total loans				**1,902,937**
Total				**2,818,591**

The Bank's gross loan portfolio increased by 9.7% in the year ended 31 December 2017. Analysing the contribution of loan types to the loan portfolio, the share of several business lines hardly changed. The ratio of the DPD90- loans compared to the gross loan portfolio increased slightly from 97.47% to 98.78% as at 31 December 2017, while the ratio of DPD90+ loans in gross loan portfolio decreased from 2.53% to 1.22%.

The Bank has a prudent provisioning policy, the coverage of loans by provision for impairment on DPD90+ loans decreased from 71.85% to 71.62% in the year ended 31 December 2017.

Not impaired loan portfolio

An analysis of the credit classification of the gross value of the loans that are not impaired, not past due and past due is as follows:

As at 31 December 2017:

Loan type	Not past due	DPD 0–90	DPD 91–360	DPD 360+	Total
Loans to medium and large corporates	1,391,940	21,907	10	14	1,413,871
Placements with other banks	976,614	–	–	–	976,614
Consumer loans	285,396	44,631	–	–	330,027
Mortgage and housing loans	141,834	18,869	28	–	160,731
Micro and small enterprises loans	130,682	33,624	486	829	165,621
Municipal loans	35,738	58	–	–	35,796
Total	**2,962,204**	**119,089**	**524**	**843**	**3,082,660**

As at 31 December 2016:

Loan type	Not past due	DPD 0–90	DPD 91–360	DPD 360+	Total
Loans to medium and large corporates	1,161,043	39,224	34	177	1,200,478
Placements with other banks	913,374	–	–	–	913,374
Consumer loans	215,875	46,400	–	–	262,275
Mortgage and housing loans	152,722	41,918	966	2,361	197,967
Micro and small enterprises loans	126,906	16,923	–	–	143,829
Municipal loans	22,566	690	129	–	23,385
Total	**2,592,486**	**145,155**	**1,129**	**2,538**	**2,741,308**

The ratio of the gross value of the loans neither past due nor impaired compared to the whole portfolio increased from 89.35% to 92.97% as at 31 December 2017 compared to 31 December 2016. The loans that are neither past due nor impaired are concentrated in the corporate business line. The ratio of the gross value of the loans past due not impaired compared to the whole portfolio decreased from 5.13% to 3.78%. The loans that are past due but not impaired are concentrated in the retail business line. During collective valuation method the Bank recognizes provision for impairment on loans over a 30 day delay. Those loans which are guaranteed by state and are past due 30 days not impaired due to the state guarantee. The level of corporate loans past due but not impaired is possible because of endorsing collaterals considering during the individual evaluation. In the other loan types the low level of loans past due but not impaired is a consequence of the prudent provisioning policy of the Bank. Among the past due loans, the share of certain loan types changed insignificantly as at 31 December 2017 compared to 31 December 2016.

Loans individually assessed for provision

The individually rated exposures contain both the loans and the off-balance sheet commitments. The rating has been performed based on the factors used at determining the provision for impairment for them.

As at 31 December 2017:

Considered factors	Carrying value	Allowance for impairment	Collateral value	Off-balance sheet commitments	Provision for losses on off balance sheet contingent liabilities
Legal proceedings	14,862	12,674	2,571	275	132
Cross default	13,934	6,703	6,014	568	20
Delay of repayment	5,937	5,425	556	–	–
Other	59,625	20,588	15,178	3,863	419
Corporate total	**94,358**	**45,390**	**24,319**	**4,706**	**571**
Placements with other banks	**–**	**–**	**–**	**–**	**–**
Total	**94,358**	**45,390**	**24,319**	**4,706**	**571**

As at 31 December 2016:

Considered factors	Carrying value	Allowance for impairment	Collateral value	Off-balance sheet commitments	Provision for losses on off balance sheet contingent liabilities
Legal proceedings	47,575	45,903	8,460	60	54
Cross default	35,044	15,791	9,260	185	24
Delay of repayment	29,386	24,088	7,409	1	1
Other	48,978	12,309	32,515	10,986	1,226
Corporate total	**160,983**	**98,091**	**57,644**	**11,232**	**1,305**
Placements with other banks	**–**	**–**	**–**	**–**	**–**
Total	**160,983**	**98,091**	**57,644**	**11,232**	**1,305**

Regarding to individually rated portfolio the ration of the carrying value of loans decreased by 41% as at 31 December 2017 compared to 31 December 2016. Regarding corporate business line in the individually rated portfolio the ratio of the carrying value of loans classified due to Legal proceedings decreased by 69% significantly as at 31 December 2017 compared to 31 December 2016.

Loan portfolio by countries

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

	2017		2016	
Country	**Gross loan and placement with other banks portfolio**	**Allowance**	**Gross loan and placement with other banks portfolio**	**Allowance**
Hungary	2,378,827	(38,346)	2,267,469	(53,044)
Malta	463,636	–	350,436	(948)
Bulgaria	56,840	(1,399)	43,915	(831)
Cyprus	41,762	(14,113)	29,040	(14,938)
Serbia	39,332	(3,255)	11,772	(42)
United Kingdom	39,247	–	25,284	–
Romania	23,742	(2,988)	49,283	(5,030)
Russia	16,200	(1,830)	43,212	(2,268)
Croatia	36,600	(14)	3,501	(171)
Ukraine	3,485	(1,912)	9,610	(2,499)
Poland	1,422	(3)	2,055	(5)
Germany	1,070	(7)	9,224	(2)
Slovakia	567	(3)	629	(2)
Switzerland	107	–	1,198	(5)
United States of America	24	–	1	–
France	1	–	308	–
Norway	–	–	2,214	–
Other	83,169	(5,638)	52,340	(11,582)
Total	**3,186,031**	**(69,508)**	**2,901,491**	**(91,367)**

27.1.2 Collaterals

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

Types of collateral	2017	2016
Mortgages	1,073,509	1,052,684
Guarantees and warranties	273,462	252,220
Deposit	119,887	89,859
from this: Cash	47,354	59,444
Securities	69,742	27,867
Other	2,791	2,548
Assignment	160	350
Other	1,172	962
Total	**1,468,190**	**1,396,075**

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

Types of collateral	2017	2016
Mortgage	421,699	408,220
Guarantees and warranties	162,297	140,452
Deposit	57,938	29,643
from this: Cash	11,331	13,802
Securities	45,150	13,684
Other	1,457	2,157
Assignment	72	251
Other	912	442
Total	**642,918**	**579,008**

The coverage level of loan portfolio to the extent of the exposures increased from 19.96% to 20.18% as at 31 December 2017, while the coverage to the total collateral value decreased from 48.12% to 46.08%.

* The carrying amount of the loan portfolio does not contain accrued interest.

27.1.3 Restructured loans

	2017		2016	
	Gross portfolio	Allowance	Gross portfolio	Allowance
Retail loans	4,752	465	5,961	2,972
Loans to medium and large corporates*	14,690	3,032	20,535	4,301
Micro and small enterprises loans	1,818	16	1,549	20
Total	**21,260**	**3,513**	**28,045**	**7,293**

Restructured portfolio definition

Restructured portfolio for **retail business line** contains every loan which is relevant restructured and less than 91 days delinquent. Loan is considered as relevant restructured if:

- it was restructured in the last 12 months, or
- it was restructured more than 12 months ago, but the connected preferential period is not expired or expired in the last 12 months.

Hungarian FX mortgage loans in the fixed exchange rate scheme are not included.

In case of loans that have been restructured more than once the last restructuring is considered.

Restructured portfolio for **corporate/micro and small enterprises/municipal business line** contains every loan which is relevant restructured and less than 91 days delinquent. Loan is considered as relevant restructured if:

- independently from the date of the restructuring the following restructuring tool was applied:
  - – cancellation of principal outstanding (cancelled or partially cancelled principal receivables);
- it was restructured in the last 12 months or the loan was restructured more than 12 months ago, but the connected preferential period is not expired or expired in the last 12 months, and any of the following restructuring tools were applied:
  - – cancellation of interest rate (final or temporary reduction of the interest margin, cancellation of due interest), or
  - – restructuring of interest payments (postponement of the interest payment, capitalisation of the interest), or
  - – restructuring of principal repayment (partial or full postponement of repayment of a given instalment, rescheduling one or more instalments within the original term or with extension of the term simultaneously).

Other modifications of contract not mentioned above are not considered as restructuring (i.e. modifying the collateral structure, modification of the credit purpose).

In case of loans that have been restructured more than once the last restructuring is considered.

Financial instruments by rating categories**

Held-for-trading securities as at 31 December 2017:

	A1	A2	A3	Aa3	Aaa	Ba1	Ba2	Baa1	Baa2	Baa3	Not rated	Total
Other non-interest bearing treasury bills	76	24	26	–	–	–	26	24	17	26	9,287	9,506
Government bonds	–	–	–	–	257	–	–	–	–	64,313	–	64,570
Hungarian government discounted Treasury Bills	–	–	–	–	–	–	–	–	–	1,169	–	1,169
Hungarian government interest bearing Treasury Bills	–	–	–	–	–	–	–	–	–	93,806	–	93,806
Securities issued by credit institutions	–	–	–	–	–	4,724	8,086	–	–	1,880	2,103	16,793
Other securities	–	–	–	–	–	–	–	–	–	17,572	218	17,790
Subtotal	**76**	**24**	**26**	**–**	**257**	**4,724**	**8,112**	**24**	**17**	**178,766**	**11,608**	**203,634**
Accrued interest												3,081
Total												**206,715**

* Incl.: project and syndicated loans.

** Moody's ratings.

Available-for-sale securities as at 31 December 2017

	A2	A3	Ba1	Ba3	Baa1	Baa2	Baa3	Not rated	Total
Mortgage bonds issued by OTP Mortgage Bank Ltd.	–	–	–	–	–	–	149,987	–	149,987
Government bonds	20,373	5,937	25,883	6,252	10,042	21,349	1,100,399	–	1,190,235
Interest bearing Treasury Bills	–	–	–	–	–	–	142,988	–	142,988
Other non-interest bearing securities	–	–	–	–	–	–	–	31,699	31,699
Other debt securities	–	–	–	–	–	1,404	32,655	168,392	202,451
Subtotal	**20,373**	**5,937**	**25,883**	**6,252**	**10,042**	**22,753**	**1,426,029**	**200,091**	**1,717,360**
Accrued interest									18,628
Provision for impairment									(86)
Total									**1,735,902**

Held-to-maturity securities as at 31 December 2017:

	Baa3	Total
Government bonds	1,021,441	1,021,441
Mortgage bonds	4,746	4,746
Subtotal	**1,026,187**	**1,026,187**
Accrued interest		17,592
Total		**1,043,779**

An analysis of securities (held for trading, available-for-sale and held-to-maturity) in a country breakdown is as follows:

Country	2017	2016 (restated)
Hungary	2,746,572	2,255,339
Slovakia	51,907	42,754
Russia	42,587	13,182
Luxembourg	21,319	7,169
Poland	20,373	28,355
Spain	11,045	–
Bulgaria	10,305	–
Slovenia	10,042	–
Romania	3,692	–
Other	29,339	10,759
Total	**2,947,181**	**2,357,558**

27.2 Market risk

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Bank applies a Value-at-Risk ("VaR") methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions.
The Management Board sets limits on the value of risk that may be accepted, which is monitored on a daily basis. (Analysis of liquidity risk, foreign currency risk and interest rate risk is detailed in Notes 33, 34 and 35 respectively.)

27.2.1 Market risk sensitivity analysis

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

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

The VaR of the trading portfolio can be summarized as follows :

Historical VaR (99%, one-day) by risk type	Average in HUF mn	
	2017	**2016**
Foreign exchange	274	113
Interest rate	113	69
Equity instruments	10	2
Diversification	–	(31)
Total VaR exposure	**397**	**153**

While VaR captures the OTP's daily exposure to currency and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in interest or foreign currency rates over a year. The longer time frame of sensitivity analysis complements VaR and helps the OTP to assess its market risk exposures. Details of sensitivity analysis for foreign currency risk are set out in Note 27.2.2, for interest rate risk in Note 27.2.3 and for equity price sensitivity analysis in Note 27.2.4.

27.2.2 Foreign currency sensitivity analysis

The following table details the OTP's sensitivity to an increase and decrease in the HUF exchange rate against the EUR and USD, over a 3 months period. Monte Carlo simulation is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items as strategic open positions related to foreign activities.

The strategic open position related to the foreign operations was EUR (310) million as of 31 December 2017. The strategic EUR open FX position kept to hedge the currency risk of the expected FX-denominated net earnings of the main foreign subsidiaries. High portion of strategic positions are considered as effective hedge of future profit inflows of foreign subsidiaries, and so FX risk alters the bank's capital and not its earnings. A positive number below indicates an increase in profit where the HUF strengthens against the EUR. For a weakening of the HUF against the EUR, there would be an equal and opposite impact on the profit, and the balances below would be negative.

Probability	Effects to the P&L in 3 months period in HUF billion	
	2017	**2016**
1%	(11.9)	(12.3)
5%	(8.1)	(8.4)
25%	(3.3)	(3.5)
50%	(0.3)	(0.3)
25%	2.6	2.7
5%	6.7	6.9
1%	9.4	9.8

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 2017.

A foreign currency volatility effect to equity is not significant for the year ended 2017 and 2016.

27.2.3 Interest rate sensitivity analysis

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

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

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

1. HUF base rate stays unchanged and BUBOR decreases gradually to 0% (scenario 1)
2. BUBOR decreases gradually by 50 bps over the next year and the central bank base rate decreases to the level of BUBOR3M at the same time (scenario 2)

The net interest income in a one year period after 1 January 2018 would be decreased by HUF 175 million (scenario 1) and HUF 4.877 million (scenario 2) as a result of these simulation. This effect is counterbalanced by capital gains (HUF 306 million for scenario 1, HUF 3.735 million for scenario 2) on the government bond portfolio held for hedging.

Furthermore, the effects of an instant 10 bps parallel shift of the HUF, EUR and USD yield-curves on net interest income over a one-year period and on the market value of the hedge government bond portfolio booked against capital was analysed.

The results can be summarized as follows:

	2017		2016	
	in HUF million			
Description	**Effects to the net interest income (one-year period)**	**Effects to OCI (Price change of AFS government bonds)**	**Effects to the net interest income (one-year period)**	**Effects to OCI (Price change of AFS government bonds)**
HUF (0.1%) parallel shift	(1,608)	771	(1,435)	195
EUR (0.1%) parallel shift	(144)	–	(377)	–
USD (0.1%) parallel shift	(89)	–	(74)	–
Total	**(1,841)**	**771**	**(1,886)**	**195**

27.2.4 Equity price sensitivity analysis

The following table shows the effect of the equity price sensitivity. The Bank uses VaR calculation with 1 day holding period and 99% confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognising offsetting positions and correlations between products and markets. The daily loss will not exceed the reported VaR number with 99% of probability. The stress test assumes the largest price movement of the last year and calculates with it as the adverse direction. These scenario shows the loss of the portfolio when all prices change with the maximum amount of the last year.

Description	2017	2016
VaR (99%, one day, million HUF)	10	2
Stress test (million HUF)	(123)	(18)

27.3 Capital management

Capital management

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

Capital adequacy

The Capital Requirements Directive package (CRDIV/CRR) transposes the new global standards on banking regulation (commonly known as the Basel III agreement) into the EU legal framework. The new rules are applied from 1 January 2014. They set stronger prudential requirements for institutions, requiring them to keep sufficient capital reserves and liquidity. This new framework makes institutions in the EU more solid and strengthens their capacity to adequately manage the risks linked to their activities, and absorb any losses they may incur in doing business. The capital adequacy of the Bank is supervised based on the financial statements data prepared in accordance with HAS applying the current directives, rulings and indicators from 1 January 2014.
The Bank has entirely complied with the regulatory capital requirements in 2017 as well as in 2016.
The capital adequacy calculations of the Bank in accordance with IFRS as adopted by EU are prepared based on Basel III as at 31 December 2016 and 31 December 2017. The Bank uses the standard method for determining the regulatory capital requirements of the credit risk and market risk while in case of the operational risk the Advanced Measurement Approach (AMA) is applied since 31 December 2012.

The calculation of the Capital Adequacy ratio as at 31 December 2017 and 31 December 2016 is as follows:

	Basel III	
	2017	2016
Tier1 capital	1,311,383	1,022,394
Common equity Tier1 capital (CET1)	1,311,383	1,022,394
Additional Tier1 capital (AT1)	–	–
Tier2 capital	108,377	119,069
Regulatory capital	**1,419,760**	**1,141,463**
Credit risk capital requirement	327,802	260,392
Market risk capital requirement	11,262	47,887
Operational risk capital requirement	22,547	21,804
Total requirement regulatory capital	**361,611**	**330,083**
Surplus capital	**1,058,149**	**811,380**
CET1 ratio	29.01%	24.78%
Capital adequacy ratio	**31.41%**	**27.66%**

Basel III

Common equity Tier1 capital (CET1):
Issued capital, Capital reserve, useable part of Tied-up reserve, General reserve, Profit reserve, Profit for the year, Treasury shares, Intangible assets, deductions due to investments, adjustments due to temporary disposals.

Tier2 capital:
Subsidiary loan capital, Subordinated loan capital, deductions due to repurchased loan capital and Subordinated loan capital issued by the OTP Bank, adjustments due to temporary disposals.

NOTE 28: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn)

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

Contingent liabilities and commitments	2017	2016
Commitments to extend credit	1,046,860	897,808
Guarantees arising from banking activities	612,099	444,501
from this: Payment undertaking liabilities (related to issue of mortgage bonds) of OTP Mortgage Bank	278,960	128,812
Legal disputes (disputed value)	5,231	5,095
Confirmed letters of credit	90	139
Other	159,119	118,306
Total	**1,823,399**	**1,465,849**

Legal disputes

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

On 14 December 2016 OTP Bank announces that in the so-called "retail risk breakfast" case the Hungarian Competition Authority's decision – delivered on 19 November 2013 – imposing a fine of HUF 3.9 billion on the OTP Bank, as well as the upholding first and second instance judgments were repealed by the judgment sentenced by the Curia after the judicial review trial on 12 December, 2016. Curia has accepted the Competition Authority's position related to the definability of the alleged infringements. In February 2017 the fine was refunded for the Bank.

The Bank believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash-flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation. Provision due to legal disputes was HUF 1,207 million and HUF 362 million as at 31 December 2017 and 31 December 2016, respectively (see Note 18).

Commitments to extend credit, guarantees and letter of credit

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

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

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

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

Guarantees, payment undertakings arising from banking activities

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

Contingent liabilities related to OTP Mortgage Bank Ltd.

In 2010 OTP Mortgage Bank has agreed with OTP Bank Plc., that OTP Bank Plc. issues a

Payment Undertaking for an annual fee in relation to obligations from Unsubordinated Debt Instruments issued by the OTP Mortgage Bank.

Derivatives

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

NOTE 29: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF mn)

Previously approved option program required a modification thanks to the introduction of the Bank Group Policy on Payments accepted in resolution of Annual General Meeting regarding to the amendment of CRD III. Directives and Act on Credit Institutions and Financial Enterprises. Key management personnel affected by the Bank Group Policy receive compensation based on performance assessment generally in the form of cash bonus and equity shares in a ratio of 50–50%. Assignment is based on OTP shares, furthermore performance based payments are deferred in accordance with the rules of Credit Institutions Act.

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

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

The quantity of usable shares for individuals calculated for settlement of share-based payment shall be determined as the ratio of the amount of share-based payment and share price determined by Supervisory Board[2].

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

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

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

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Post-employment benefits are employee benefits (other than termination and short-term employee benefits) that are payable after the completion of employment. Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for

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

one or more employees. Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions.

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

The parameters for the share-based payment relating to the year 2010–2014 were determined by Board of Directors and relating to years from 2015 by Supervisory Board for periods of each year as follows:

Year	Share purchasing at a discounted price (HUF per share)															
	for the year 2010		for the year 2011		for the year 2012		for the year 2013		for the year 2014		for the year 2015			for the year 2016		
	Exercise price	Maximum earnings	Exercise price	Maximum earnings	Exercise price	Maximum earnings	Exercise price	Maximum earnings	Exercise price	Maximum earnings	Exercise price	Maximum earnings	Price of remu-neration exchanged to share	Exercise price	Maximum earnings	Price of remu-neration exchanged to share
2011	3,946	2,500	–	–	–	–	–	–	–	–	–	–	–	–	–	–
2012	3,946	3,000	1,370	3,000	–	–	–	–	–	–	–	–	–	–	–	–
2013	4,446	3,500	1,870	3,000	2,886	3,000	–	–	–	–	–	–	–	–	–	–
2014	4,946	3,500	1,870	4,000	2,886	3,000	2,522	2,500	–	–	–	–	–	–	–	–
2015	–	–	1,870	4,000	2,886	3,000	2,522	3,000	3,930	2,500	–	–	–	–	–	–
2016	–	–	–	–	2,886	3,500	2,522	3,500	3,930	3,000	4,892	2,500	6,892	–	–	–
2017	–	–	–	–	–	–	2,522	3,500	3,930	3,000	4,892	3,000	6,892	7,200	2,500	9,200
2018	–	–	–	–	–	–	–	–	3,930	3,000	4,892	3,000	6,892	7,200	3,000	9,200
2019	–	–	–	–	–	–	–	–	–	–	4,892	3,000	6,892	7,200	3,500	9,200
2020	–	–	–	–	–	–	–	–	–	–	–	–	–	7,200	4,000	9,200

Based on parameters accepted by Board of Directors relating to the year 2010 effective pieces are follows as at 31 December 2017:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2017	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2011	–	340,950	11,622	5,731	329,328
Share purchasing period started in 2012	–	735,722	714,791	4,593	20,931
Share purchasing period started in 2013	–	419,479	31,789	4,808	387,690
Share purchasing period started in 2014	–	497,451	495,720	5,838	1,731

Based on parameters accepted by Board of Directors relating to the year 2011 effective pieces are follows as at 31 December 2017:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2017	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2012	–	471,240	464,753	3,758	6,487
Share purchasing period started in 2013	–	1,267,173	1,256,529	4,886	10,644
Share purchasing period started in 2014	–	609,137	609,137	4,799	–
Share purchasing period started in 2015	–	608,118	608,118	5,621	–

Based on parameters accepted by Board of Directors relating to the year 2012 effective pieces are follows as at 31 December 2017:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2017	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2013	–	450,861	445,671	4,413	5,190
Share purchasing period started in 2014	–	1,156,631	1,151,890	4,982	4,741
Share purchasing period started in 2015	–	555,845	555,845	5,658	–
Share purchasing period started in 2016	–	581,377	581,377	6,575	–

Based on parameters accepted by Board of Directors relating to the year 2013 effective pieces are follows as at 31 December 2017:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2017	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2014	–	406,044	404,263	4,369	1,781
Share purchasing period started in 2015	–	804,469	804,469	4,918	–
Share purchasing period started in 2016	–	393,750	392,946	6,775	–
Share purchasing period started in 2017	30,033	483,987	453,954	9,276	–

Based on parameters accepted by Board of Directors relating to the year 2014 effective pieces are follows as at 31 December 2017:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2017	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2015	–	176,459	176,459	5,828	–
Share purchasing period started in 2016	–	360,425	359,524	7,011	901
Share purchasing period started in 2017	11,137	189,778	178,641	9,243	–
Share purchasing period starting in 2018	237,013	–	–	–	–

Based on parameters accepted by Supervisory Board relating to the year 2015 effective pieces are follows as at 31 December 2017:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2017	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2016	–	152,247	152,247	7,373	–
Remuneration exchanged to share provided in 2016	–	10,947	10,947	6,509	–
Share purchasing period started in 2017	26,065	299,758	273,693	9,260	–
Remuneration exchanged to share provided in 2017	–	20,176	20,176	9,257	–
Share purchasing period starting in 2018	166,321	–	–	–	–
Remuneration exchanged to share applying in 2018	9,543	–	–	–	–
Share purchasing period starting in 2019	204,585	–	–	–	–
Remuneration exchanged to share applying in 2019	10,671	–	–	–	–

Based on parameters accepted by Supervisory Board relating to the year 2016 effective pieces are follows as at 31 December 2017:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2017	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2017	–	147,984	147,984	9,544	–
Remuneration exchanged to share provided in 2017	–	4,288	4,288	9,194	–
Share purchasing period starting in 2018	312,328	–	–	–	–
Remuneration exchanged to share applying in 2018	8,296	–	–	–	–
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	–	–	–	–

Effective pieces relating to the periods starting in 2016–2020 settled during valuation of performance of year 2013–2016, can be modified based on risk assessment and personal changes. In connection with shares given as a part of payments detailed in the **Direction Chief Executive about Remuneration of Work in OTP Bank** and the share-based compensation for Board of Directors detailed in 8/2013 resolution of Annual General Meeting and connecting compensation based on performance assessment accounted as equity-settled share based transactions, HUF 3,597 million and HUF 3,530 million was recognized as expense for year ended 31 December 2017 and 31 December 2016 respectively.

NOTE 30: RELATED PARTY TRANSACTIONS (in HUF mn)

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

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

a) Loans provided to related parties

	2017	2016
OTP Mortgage Bank Ltd.	583,294	521,265
OTP Financing Malta Company Ltd. (Malta)	447,819	334,658
Merkantil Bank Ltd.	240,866	197,111
OTP Factoring Ltd.	63,548	109,288
Splistka banka d.d. (Croatia)	31,014	–
OTP Real Estate Leasing Ltd.	20,979	22,826
OTP Holding Malta Ltd. (Malta)	17,201	15,778
OTP banka Srbija a.d. (Serbia)	10,257	1,957
CIL Babér Ltd.	5,704	–
Vojvodanska Banka ad Novi Sad (Serbia)	4,652	–
OTP Real Estate Ltd.	4,426	1,442
Merkantil Lease Ltd.	4,411	10,630
JN Parkolóház Llc.	2,786	1,463
Merkantil Real Estate Leasing Ltd.	2,342	1,858
SPLC-P Ltd.	2,156	–
JSC "OTP Bank" (Russia)	1,624	22,180
D-ÉG Thermoset Llc.	1,334	2,172
Other	1,320	10,800
Total	**1,445,733**	**1,252,779**

b) Deposits from related parties

	2017	2016
DSK Bank EAD (Bulgaria)	227,668	171,541
JSC "OTP Bank" (Russia)	73,669	71,683
OTP Funds Servicing and Consulting Ltd.	39,349	34,902
OTP Building Society Ltd.	37,474	20,822
OTP Mortgage Bank Ltd.	22,769	2,597
OTP Bank JSC (Ukraine)	17,591	1,081
Bank Center Llc.	9,737	6,252
Merkantil Bank Ltd.	6,617	7,260
Inga Kettő Ltd.	5,446	6,850
Splitska banka (Crotia)	4,984	–
OTP Factoring Ltd.	4,899	12,960
OTP Holding Ltd./OTP Financing Ciprus Co. Ltd. (Ciprus)	4,165	6,829
Crnogorska komercijalna banka a.d (Montenegro)	3,977	204
OTP Financing Malta Company Ltd. (Malta)	3,405	3,165
Air-Invest Llc.	3,162	648
OTP Life Annuity Ltd.	3,053	3,123
OTP banka Srbija a.d. (Serbia)	2,994	104
OTP Real Estate Leasing Ltd.	2,545	2,516
OTP Banka Slovensko a.s. (Slovakia)	2,506	190
Balansz Real Estate Institute Fund	2,297	6,339
OTP Bank Romania S.A. (Romania)	1,688	27
Bajor-Polár Center Ltd.	1,680	1,257
Other	13,709	8,925
Total	**495,384**	**369,275**

c) Interests received by the Bank*

	2017	2016
OTP Financing Malta Company Ltd. (Malta)	8,282	5,643
Merkantil Bank Ltd.	3,760	4,069
OTP Mortgage Bank Ltd.	2,575	5,195
OTP Factoring Ltd.	565	1,717
LLC OTP Leasing (Ukraine)	206	319
OTP Real Estate Leasing Ltd.	198	397
Other	518	566
Total	**16,104**	**17,906**

d) Interests paid by the Bank*

	2017	2016
JSC "OTP Bank" (Russia)	6,299	2,755
DSK Bank EAD (Bulgaria)	3,533	5,432
Merkantil Lease Ltd.	136	461
OTP Mortgage Bank Ltd.	111	767
OTP Banka Slovensko a.s. (Slovakia)	103	402
Crnogorska komercijalna banka a.d (Montenegro)	85	59
OTP Funds Servicing and Consulting Ltd.	79	397
OTP banka Hrvatska d.d. (Croatia)	79	200
Other	161	881
Total	**10,586**	**11,354**

* Derivatives and interest on securities are not included.

e) Commissions received by the Bank

	2017	2016
From OTP Fund Management Ltd. in relation to trading activity	5,110	8,446
From OTP Real Estate Investment Fund Management Ltd. in relation to trading activity	2,233	1,473
From OTP Building Society Ltd. (agency fee in relation to finalised customer contracts)	1,555	1,258
From LLC MFO "OTP Finance" (Russia) (guarantee fee)	573	574
From OTP Funds Servicing and Consulting Ltd. in relation to banking	410	505
From OTP Fund management Ltd. in relation to deposit services	397	175
Other	474	739
Total	**10,752**	**13,170**

f) Commissions paid by the Bank

	2017	2016
OTP Faktoring Ltd. Related to commission fee	225	346
Crnogorska komercijalna bank a.d. (Montenegro) related to loan portfolio management	14	20
OTP Pénzügyi Pont Ltd. related to agency activity	–	109
Total	**239**	**475**

g) Transactions related to OTP Mortgage Bank Ltd.

	2017	2016
Fees and commissions received from OTP Mortgage Bank Ltd. Relating to the loans	14,254	15,890
Loans sold to OTP Mortgage Bank Ltd. (including interest)	447	565
The gross book value of the loans sold	399	565

h) Transactions related to OTP Factoring Ltd.

	2017	2016
The gross book value of the loans sold	13,774	32,700
Provision for loan losses on the loans sold	7,398	11,799
Loans sold to OTP Factoring Ltd. (including interest)	4,914	18,710
Loss on these transaction (recorded in the separate financial statements as loan and placement loss)	1,462	2,191

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

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

	2017	2016
Securities issued by OTP Banka Slovensko a.s. (Slovakia) held by OTP Bank (nominal value in HUF million)	51,793	35,767

j) Related party transactions with key management

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

Compensations	2017	2016
Short-term employee benefits	2,416	3,938
Share-based payment	2,520	2,330
Long-term employee benefits (on the basis of IAS 19)	226	256
Total	**5,162**	**6,524**

	2017	2016
Loans provided to companies owned by the Management (in the normal course of business)	55,164	47,883
Commitments to extend credit and bank guarantees	38,530	39,544
Treasury Credit lines of the members of Board of Directors and the Supervisory Board and their close family members (at market conditions)	4,450	–

An analysis of Credit lines "A" is as follows:

	2017	2016
Members of Board of Directors and their close family members	84	111
Members of Supervisory Board and their close family members	3	3
Executive	77	29
Total	**164**	**143**

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

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

	2017	2016
Members of Board of Directors and their close family members	14	18
Members of Supervisory Board	–	2
Executive	5	–
Total	**19**	**20**

Interest	floating, monthly 2.19%	floating, monthly 2.23%
Annual fee	15,044 HUF/year	14,984 HUF/year
Collateral	income received to bank account	income received to bank account

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

	2017	2016
Members of Board of Directors and their close family members	2	–
Members of Supervisory Board	–	–
Executive	10	4
Total	**12**	**4**

Interest	floating, monthly 2.45%	floating, monthly 2.49%
Annual fee	16,118 HUF/year	16,054 HUF/year
Collateral	income received to bank account	income received to bank account

An analysis of Amex Platinum/Visa Infinite is as follows:

	2017	2016
Members of Board of Directors and their close family members	17	15
Members of Supervisory Board	–	–
Executive and their close family members	40	32
Total	**57**	**47**

Interest	floating, monthly 2.48%	floating, monthly 2.55%
Annual fee	19,217 Ft/year	19,140 Ft/year
Collateral	income received to bank account	income received to bank account

An analysis of Lombard loans is as follows:

	2017	2016
Members of Board of Directors and their close family members	29,084	–
Interest	0.66%	–
Collateral	Securities bail	
Executive and their close family members	230	25
Interest	2.39%	3.15%
Collateral	Government bond, Long-term Investment Account, Shares in investment funds	Shares
Total	**29,314**	**25**

An analysis of Personal loans is as follows:

	2017	2016
Executive	5	10
Interest	11.55%	9.99%–11.55%
Collateral	income received to bank account	income received to bank account

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

	2017	2016
Members of Board of Directors	857	753
Members of Supervisory Board	107	87
Total	**964**	**840**

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

NOTE 31: TRUST ACTIVITIES (in HUF mn)

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

	2017	2016
Loans managed by the Bank as a trustee	34,226	35,342

NOTE 32: CONCENTRATION OF ASSETS AND LIABILITIES

In the percentage of the total assets	2017	2016 (restated)	2015 (restated)
Receivables from, or securities issued by the Hungarian Government or the NBH	31%	33%	43%
Securities issued by the OTP Mortgage Bank Ltd.	2.23%	3.71%	8.46%

There were no other significant concentrations of the assets or liabilities of the Bank as at 31 December 2017 or 31 December 2016.

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

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

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

NOTE 33: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF mn)

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

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

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

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

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

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

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

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

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

As at 31 December 2017:

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

* Derivative financial instruments designated as fair value hedge are not included.

As at 31 December 2016 (restated):

	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	532,660	396,186	–	–	–	928,846
Placements with other banks, net of allowance for placement losses	196,129	530,373	115,334	73,818	–	915,654
Financial assets at fair value through profit or loss	8,560	15,186	11,399	5,133	2,896	43,174
Securities available-for-sale	19,716	209,158	944,343	171,035	16,803	1,361,055
Loans, net of allowance for loan losses	515,620	391,673	510,862	499,398	–	1,917,553
Investment properties	–	–	–	–	2,267	2,267
Investments in subsidiaries, associates and other investments	–	–	–	–	668,869	668,869
Securities held-to-maturity	25,278	58,940	287,045	439,242	–	810,505
Intangible assets	–	–	–	–	27,767	27,767
Property and equipment	–	–	–	–	62,361	62,361
Other assets*	89,017	4,362	27,604	–	–	120,983
TOTAL ASSETS	**1,386,980**	**1,605,878**	**1,896,587**	**1,188,626**	**780,963**	**6,859,034**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	239,504	47,546	292,196	67,025	–	646,271
Deposits from customers	4,042,564	674,112	13,064	15,311	–	4,745,051
Liabilities from issued securities	21,972	28,465	47,066	6,840	–	104,343
Subordinated bonds and loans	639	–	–	–	109,719	110,358
Other liabilities*	209,213	7,549	–	–	–	216,762
TOTAL LIABILITIES	**4,513,892**	**757,672**	**352,326**	**89,176**	**109,719**	**5,822,785**
NET POSITION	**(3,126,912)**	**848,206**	**1,544,261**	**1,099,450**	**671,244**	**1,036,249**
Receivables from derivative financial instruments classified as held for trading	2,496,222	578,156	325,686	20,438	–	3,420,502
Liabilities from derivative financial instruments classified as held for trading	(2,488,101)	(566,493)	(315,703)	(23,499)	–	(3,393,796)
Net position of financial instruments classified as held for trading	8,121	11,663	9,983	(3,061)	–	26,706
Receivables from derivative financial instruments designated as fair value hedge	4,942	158,038	73,499	4,442	–	240,921
Liabilities from derivative financial instruments designated as fair value hedge	(4,356)	(156,398)	(98,096)	(4,233)	–	(263,083)
Net position of financial instruments designated as fair value hedge	**586**	**1,640**	**(24,597)**	**209**	**–**	**(22,162)**
Net position of derivative financial instruments total	**8,707**	**13,303**	**(14,614)**	**(2,852)**	**–**	**4,544**
Commitments to extend credit	159,539	531,719	171,903	34,647	–	897,808
Bank guarantees	68,144	56,001	78,586	241,770	–	444,501
Off-balance sheet commitments	**227,683**	**587,720**	**250,489**	**276,417**	**–**	**1,342,309**

* Derivative financial instruments designated as fair value hedge are not included.

As at 31 December 2015 (restated):

	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	1,326,197	–	–	–	–	1,326,197
Placements with other banks, net of allowance for placement losses	277,698	316,262	53,325	–	–	647,285
Financial assets at fair value through profit or loss	2,662	5,988	8,463	3,118	347	20,578
Securities available-for-sale	97,505	169,154	855,761	193,432	23,369	1,339,221
Loans, net of allowance for loan losses	151,068	808,714	384,408	335,073	–	1,679,263
Investment properties	–	–	–	–	2,294	2,294
Investments in subsidiaries, associates and other investments	–	–	–	–	657,531	657,531
Securities held-to-maturity	12,763	63,115	378,678	389,642	–	844,198
Intangible assets	–	–	–	–	32,439	32,439
Property and equipment	–	–	–	–	63,440	63,440
Other assets*	46,175	26,000	41,905	–	37	114,117
TOTAL ASSETS	**1,914,068**	**1,389,233**	**1,722,540**	**921,265**	**779,457**	**6,726,563**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	449,413	45,377	308,137	38,473	–	841,400
Deposits from customers	4,017,478	269,279	21,987	14,558	–	4,323,302
Liabilities from issued securities	31,140	50,160	33,839	34,339	–	149,478
Subordinated bonds and loans	1,382	156,560	–	–	110,566	268,508
Other liabilities*	152,750	134,665	–	–	–	287,415
TOTAL LIABILITIES	**4,652,163**	**656,041**	**363,963**	**87,370**	**110,566**	**5,870,103**
NET POSITION	**(2,738,095)**	**733,192**	**1,358,577**	**833,895**	**668,891**	**856,460**
Receivables from derivative financial instruments classified as held for trading	2,083,466	1,035,986	597,635	21,157	–	3,738,244
Liabilities from derivative financial instruments classified as held for trading	(2,081,551)	(1,037,515)	(580,438)	(21,240)	–	(3,720,744)
Net position of financial instruments classified as held for trading	1,915	(1,529)	17,197	(83)	–	17,500
Receivables from derivative financial instruments designated as fair value hedge	40	298,739	248,950	3,074	–	550,803
Liabilities from derivative financial instruments designated as fair value hedge	–	(299,774)	(263,338)	(882)	–	(563,994)
Net position of financial instruments designated as fair value hedge	40	(1,035)	(14,388)	2,192	–	(13,191)
Net position of derivative financial instruments total	**1,955**	**(2,564)**	**2,809**	**2,109**	**–**	**4,309**
Commitments to extend credit	96,504	649,095	203,318	–	–	948,917
Bank guarantees	46,749	40,679	103,825	227,957	–	419,210
Off-balance sheet commitments	**143,253**	**689,774**	**307,143**	**227,957**	**–**	**1,368,127**

* Derivative financial instruments designated as fair value hedge are not included.

NOTE 34: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF mn)

As at 31 December 2017:

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

As at 31 December 2016:

	USD	EUR	CHF	Others	Total
Assets*	141,154	1,348,159	51,227	124,011	1,664,551
Liabilities	(246,556)	(951,569)	(24,184)	(86,090)	(1,308,399)
Off-balance sheet assets and liabilities, net**	32,905	(395,626)	(24,627)	(42,920)	(430,268)
Net position	**(72,497)**	**964**	**2,416**	**(4,999)**	**(74,116)**

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

NOTE 35 INTEREST RATE RISK MANAGEMENT (in HUF mn)

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

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

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

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

* The assets category contains foreign currency investments in subsidiaries that are measured at cost, and are deducted from the net position calculation.

** Off-balance sheet assets and liabilities, net category contains derivative instruments.

As at 31 December 2017:

	Within 1 month		Within 3 months over 1 month		Within 1 year over 3 months		Within 2 years over 1 year		Over 2 years		Non-interest-bearing		Total		Total
	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	
ASSETS															
Cash, amounts due from banks and balances with the National Bank of Hungary	**204,673**	**91,346**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**93,451**	**9,654**	**298,124**	**101,000**	**399,124**
fixed interest	204,673	91,346	–	–	–	–	–	–	–	–	–	–	204,673	91,346	296,019
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	93,451	9,654	93,451	9,654	103,105
Placements with other banks, net of allowance for placement losses	**313,305**	**79,223**	**421,698**	**20,073**	**3,197**	**16,056**	**25,181**	**–**	**96,535**	**2,830**	**–**	**–**	**859,916**	**118,182**	**978,098**
fixed interest	40,097	58,735	1,063	3,318	3,197	3,679	25,181	–	96,535	2,830	–	–	166,073	68,562	234,635
variable interest	273,208	20,488	420,635	16,755	–	12,377	–	–	–	–	–	–	693,843	49,620	743,463
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Securities held for trading	**11,657**	**194**	**33,664**	**6,342**	**66,722**	**15,058**	**43,938**	**9,201**	**1,480**	**5,871**	**11,694**	**894**	**169,155**	**37,560**	**206,715**
fixed interest	11,657	–	33,040	6,342	50,384	15,058	43,938	9,201	1,480	5,871	–	–	140,499	36,472	176,971
variable interest	–	194	624	–	16,338	–	–	–	–	–	–	–	16,962	194	17,156
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	11,694	894	11,694	894	12,588
Securities available–for–sale	**96,610**	**17,230**	**70,013**	**25,444**	**378,449**	**13,466**	**229,078**	**20,026**	**620,104**	**215,242**	**31,821**	**18,419**	**1,426,075**	**309,827**	**1,735,902**
fixed interest	58,092	–	50,493	–	354,614	13,466	229,078	20,026	620,104	215,242	–	–	1,312,381	248,734	1,561,115
variable interest	38,518	17,230	19,520	25,444	23,835	–	–	–	–	–	–	–	81,873	42,674	124,547
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	31,821	18,419	31,821	18,419	50,240
Loans, net of allowance for loan losses	**546,758**	**293,065**	**316,668**	**544,879**	**110,470**	**30,330**	**48,042**	**11,053**	**201,600**	**42,181**	**–**	**–**	**1,223,538**	**921,508**	**2,145,046**
fixed interest	36,263	3,361	23,382	6,132	54,185	12,281	46,799	11,053	178,605	42,181	–	–	339,234	75,008	414,242
variable interest	510,495	289,704	293,286	538,747	56,285	18,049	1,243	–	22,995	–	–	–	884,304	846,500	1,730,804
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Securities held–to–maturity	**–**	**–**	**–**	**–**	**59,004**	**–**	**116,374**	**–**	**850,809**	**–**	**17,592**	**–**	**1,043,779**	**–**	**1,043,779**
fixed interest	–	–	–	–	59,004	–	116,374	–	850,809	–	–	–	1,026,187	–	1,026,187
variable interest	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	17,592	–	17,592	–	17,592
Derivative financial instruments	**738,965**	**345,105**	**669,088**	**411,851**	**417,975**	**303,805**	**27,319**	**22,221**	**20,581**	**27,869**	**620,839**	**226,643**	**2,494,767**	**1,337,494**	**3,832,261**
fixed interest	718,076	341,564	492,515	409,530	413,526	291,636	26,856	22,221	20,581	27,869	–	–	1,671,554	1,092,820	2,764,374
variable interest	20,889	3,541	176,573	2,321	4,449	12,169	463	–	–	–	–	–	202,374	18,031	220,405
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	620,839	226,643	620,839	226,643	847,482
LIABILITIES															
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	**100,458**	**152,435**	**145,258**	**112,014**	**46,795**	**5,174**	**17,854**	**4,711**	**104,844**	**4,990**	**–**	**–**	**415,209**	**279,324**	**694,533**
fixed interest	83,124	32,303	144,919	4,422	37,867	3,953	17,839	4,711	104,095	4,990	–	–	387,844	50,379	438,223
variable interest	17,334	120,132	339	107,592	8,928	1,221	15	–	749	–	–	–	27,365	228,945	256,310
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Deposits from customers	**1,359,708**	**275,686**	**116,693**	**56,982**	**46,938**	**14,797**	**801**	**–**	**2,766,638**	**554,626**	**–**	**–**	**4,290,778**	**902,091**	**5,192,869**
fixed interest	476,072	191,735	116,693	56,982	46,938	14,797	801	–	4,310	–	–	–	644,814	263,514	908,328
variable interest	883,636	83,951	–	–	–	–	–	–	2,762,328	554,626	–	–	3,645,964	638,577	4,284,541
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Liabilities from issued securities	**430**	**1,300**	**3,141**	**2,440**	**7,621**	**3,100**	**5,363**	**–**	**36,909**	**–**	**–**	**–**	**53,464**	**6,840**	**60,304**
fixed interest	430	–	3,141	–	7,621	192	5,363	–	36,909	–	–	–	53,464	192	53,656
variable interest	–	1,300	–	2,440	–	2,908	–	–	–	–	–	–	–	6,648	6,648
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Derivative financial instruments	**875,512**	**207,857**	**909,079**	**147,644**	**397,702**	**319,233**	**43,494**	**9,167**	**35,935**	**38,342**	**372,879**	**464,774**	**2,634,601**	**1,187,017**	**3,821,618**
fixed interest	853,960	204,038	770,912	123,845	394,530	313,953	43,428	9,167	35,935	38,342	–	–	2,098,765	689,345	2,788,110
variable interest	21,552	3,819	138,167	23,799	3,172	5,280	66	–	–	–	–	–	162,957	32,898	195,855
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	372,879	464,774	372,879	464,774	837,653
Subordinated bonds and loans	**–**	**–**	**–**	**108,835**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**108,835**	**108,835**
fixed interest	–	–	–	108,835	–	–	–	–	–	–	–	–	–	108,835	108,835
NET POSITION	**(424,140)**	**188,885**	**336,960**	**580,674**	**536,761**	**36,411**	**422,420**	**48,623**	**(1,153,217)**	**(303,965)**	**402,518**	**(209,164)**	**121,302**	**341,464**	**462,766**

As at 31 December 2016 (restated):

	Within 1 month		Within 3 months over 1 month		Within 1 year over 3 months		Within 2 years over 1 year		Over 2 years		Non-interest-bearing		Total		Total
	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	
ASSETS															
Cash, amounts due from banks and balances with the National Bank of Hungary	**500,454**	**329,040**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**88,244**	**11,108**	**588,698**	**340,148**	**928,846**
fixed interest	500,454	329,040	–	–	–	–	–	–	–	–	–	–	500,454	329,040	829,494
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	88,244	11,108	88,244	11,108	99,352
Placements with other banks, net of allowance for placement losses	**204,491**	**114,880**	**447,406**	**19,158**	**236**	**22,711**	**331**	**–**	**103,732**	**397**	**2,245**	**67**	**758,441**	**157,213**	**915,654**
fixed interest	52,403	63,610	6,315	2,060	236	9,026	331	–	103,732	–	–	–	163,017	74,696	237,713
variable interest	152,088	51,270	441,091	17,098	–	13,685	–	–	–	397	–	–	593,179	82,450	675,629
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	2,245	67	2,245	67	2,312
Securities held for trading	**2,419**	**–**	**6,635**	**–**	**11,762**	**6,218**	**119**	**5,225**	**5,316**	**3,377**	**3,218**	**323**	**29,469**	**15,143**	**44,612**
fixed interest	2,419	–	6,168	–	7,273	6,218	119	5,225	5,316	3,377	–	–	21,295	14,820	36,115
variable interest	–	–	467	–	4,489	–	–	–	–	–	–	–	4,956	–	4,956
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	3,218	323	3,218	323	3,541
Securities available–for–sale	**22,867**	**161,379**	**18,748**	**21,795**	**21,568**	**28,300**	**329,963**	**14,248**	**660,781**	**170,504**	**20,960**	**13,409**	**1,074,887**	**409,635**	**1,484,522**
fixed interest	–	–	2,624	–	21,568	28,300	329,963	14,248	660,781	170,504	–	–	1,014,936	213,052	1,227,988
variable interest	22,867	161,379	16,124	21,795	–	–	–	–	–	–	–	–	38,991	183,174	222,165
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	20,960	13,409	20,960	13,409	34,369
Loans, net of allowance for loan losses	**452,742**	**186,528**	**336,373**	**450,871**	**194,096**	**12,917**	**73,196**	**7,244**	**141,228**	**41,587**	**4,234**	**1,921**	**1,201,869**	**701,068**	**1,902,937**
fixed interest	21,496	1,289	29,664	1,906	45,829	7,997	48,520	7,244	138,295	41,587	–	–	283,804	60,023	343,827
variable interest	431,246	185,239	306,709	448,965	148,267	4,920	24,676	–	2,933	–	–	–	913,831	639,124	1,552,955
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	4,234	1,921	4,234	1,921	6,155
Securities held–to–maturity	**–**	**–**	**25,294**	**–**	**59,659**	**–**	**58,870**	**–**	**698,211**	**–**	**16,116**	**–**	**858,150**	**–**	**858,150**
fixed interest	–	–	25,294	–	59,659	–	58,870	–	698,211	–	–	–	842,034	–	842,034
variable interest	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	16,116	–	16,116	–	16,116
Derivative financial instruments	**440,563**	**629,907**	**533,092**	**178,191**	**197,126**	**99,253**	**25,585**	**140,406**	**32,444**	**35,595**	**608,980**	**233,885**	**1,837,790**	**1,317,237**	**3,155,027**
fixed interest	425,320	435,139	261,919	111,266	195,635	72,291	25,585	140,406	32,444	35,595	–	–	940,903	794,697	1,735,600
variable interest	15,243	194,768	271,173	66,925	1,491	26,962	–	–	–	–	–	–	287,907	288,655	576,562
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	608,980	233,885	608,980	233,885	842,865
LIABILITIES															
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	**108,512**	**89,818**	**11,522**	**96,863**	**56,802**	**6,787**	**167,346**	**5,570**	**93,546**	**5,189**	**3,338**	**978**	**441,066**	**205,205**	**646,271**
fixed interest	101,314	918	10,447	745	30,493	4,885	167,299	5,570	93,336	5,189	–	–	402,889	17,307	420,196
variable interest	7,198	88,900	1,075	96,118	26,309	1,902	47	–	210	–	–	–	34,839	186,920	221,759
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	3,338	978	3,338	978	4,316
Deposits from customers	**1,320,702**	**203,198**	**371,084**	**59,357**	**119,369**	**35,865**	**5,227**	**–**	**1,988,233**	**637,746**	**4,033**	**237**	**3,808,648**	**936,403**	**4,745,051**
fixed interest	504,918	195,811	368,812	59,357	119,369	35,865	5,227	–	4,454	–	–	–	1,002,780	291,033	1,293,813
variable interest	815,784	7,387	2,272	–	–	–	–	–	1,983,779	637,746	–	–	2,801,835	645,133	3,446,968
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	4,033	237	4,033	237	4,270
Liabilities from issued securities	**1**	**9,102**	**2,957**	**9,201**	**7,480**	**17,709**	**9,320**	**189**	**48,121**	**–**	**23**	**–**	**67,902**	**36,201**	**104,103**
fixed interest	1	7,963	2,957	8,212	7,480	15,800	9,320	189	48,121	–	–	–	67,879	32,164	100,043
variable interest	–	1,139	–	989	–	1,909	–	–	–	–	–	–	–	4,037	4,037
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	23	–	23	–	23
Derivative financial instruments	**946,119**	**124,775**	**534,213**	**171,532**	**249,185**	**11,700**	**161,519**	**16,746**	**41,332**	**59,631**	**356,936**	**467,979**	**2,289,304**	**852,363**	**3,141,667**
fixed interest	740,009	119,685	313,883	56,132	248,403	2,351	161,519	16,746	41,332	59,631	–	–	1,505,146	254,545	1,759,691
variable interest	206,110	5,090	220,330	115,400	782	9,349	–	–	–	–	–	–	427,222	129,839	557,061
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	356,936	467,979	356,936	467,979	824,915
Subordinated bonds and loans	**–**	**–**	**–**	**109,719**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**639**	**–**	**110,358**	**110,358**
variable interest	–	–	–	109,719	–	–	–	–	–	–	–	–	–	109,719	109,719
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	639	–	639	639
NET POSITION	**(751,798)**	**994,841**	**447,772**	**223,343**	**51,611**	**97,338**	**144,652**	**144,618**	**(529,520)**	**(451,106)**	**379,667**	**(209,120)**	**(257,616)**	**799,914**	**542,298**

As at 31 December 2015 (restated):

	Within 1 month		Within 3 months over 1 month		Within 1 year over 3 months		Within 2 years over 1 year		Over 2 years		Non-interest-bearing		Total		Total
	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	
ASSETS															
Cash, amounts due from banks and balances with the National Bank of Hungary	**1,202,576**	**40,818**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**76,320**	**6,483**	**1,278,896**	**47,301**	**1,326,197**
fixed interest	1,202,576	40,818	–	–	–	–	–	–	–	–	–	–	1,202,576	40,818	1,243,394
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	76,320	6,483	76,320	6,483	82,803
Placements with other banks, net of allowance for placement losses	**125,409**	**103,476**	**317,181**	**66,155**	**220**	**5,351**	**308**	**696**	**25,247**	**3,681**	**–**	**–**	**468,365**	**179,359**	**647,724**
fixed interest	52,836	60,993	120,240	24,595	220	424	308	696	25,247	3,681	–	–	198,851	90,389	289,240
variable interest	72,573	42,483	196,941	41,560	–	4,927	–	–	–	–	–	–	269,514	88,970	358,484
Securities held for trading	**356**	**–**	**2,125**	**23**	**7,914**	**43**	**141**	**1**	**10,345**	**52**	**783**	**357**	**21,664**	**476**	**22,140**
fixed interest	356	–	1,857	23	6,001	25	141	1	10,345	52	–	–	18,700	101	18,801
variable interest	–	–	268	–	1,913	18	–	–	–	–	–	–	2,181	18	2,199
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	783	357	783	357	1,140
Securities available–for–sale	**21,671**	**317,230**	**114,804**	**7,171**	**3,256**	**9,753**	**–**	**29,529**	**847,783**	**53,479**	**43,319**	**14,665**	**1,030,833**	**431,827**	**1,462,660**
fixed interest	–	–	95,851	–	3,256	4,780	–	29,529	847,783	53,479	–	–	946,890	87,788	1,034,678
variable interest	21,671	317,230	18,953	7,171	–	4,973	–	–	–	–	–	–	40,624	329,374	369,998
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	43,319	14,665	43,319	14,665	57,984
Loans, net of allowance for loan losses	**314,234**	**192,553**	**172,493**	**607,190**	**166,257**	**14,872**	**62,829**	**8,694**	**128,139**	**11,923**	**–**	**–**	**843,952**	**835,232**	**1,679,184**
fixed interest	2,390	700	6,530	1,502	32,250	8,643	35,934	8,694	72,613	11,923	–	–	149,717	31,462	181,179
variable interest	311,844	191,853	165,963	605,688	134,007	6,229	26,895	–	55,526	–	–	–	694,235	803,770	1,498,005
Securities held–to–maturity	**–**	**–**	**16,087**	**–**	**23,576**	**–**	**85,778**	**–**	**683,119**	**–**	**16,241**	**–**	**824,801**	**–**	**824,801**
fixed interest	–	–	12,748	–	23,576	–	85,778	–	683,119	–	–	–	805,221	–	805,221
variable interest	–	–	3,339	–	–	–	–	–	–	–	–	–	3,339	–	3,339
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	16,241	–	16,241	–	16,241
Derivative financial instruments	**673,749**	**668,467**	**1,351,732**	**384,815**	**217,206**	**109,734**	**46,773**	**149,426**	**39,414**	**29,997**	**446,726**	**110,203**	**2,775,600**	**1,452,642**	**4,228,242**
fixed interest	500,878	227,942	428,021	135,754	216,291	66,795	46,773	149,426	39,414	29,997	–	–	1,231,377	609,914	1,841,291
variable interest	172,871	440,525	923,711	249,061	915	42,939	–	–	–	–	–	–	1,097,497	732,525	1,830,022
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	446,726	110,203	446,726	110,203	556,929
LIABILITIES															
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	**272,075**	**155,355**	**14,020**	**65,193**	**63,473**	**6,772**	**168,853**	**5,779**	**72,029**	**5,573**	**–**	**–**	**590,450**	**238,672**	**829,122**
fixed interest	271,877	103,120	12,930	741	32,373	4,588	168,853	5,779	72,029	5,573	–	–	558,062	119,801	677,863
variable interest	198	52,235	1,090	64,452	31,100	2,184	–	–	–	–	–	–	32,388	118,871	151,259
Deposits from customers	**1,331,844**	**222,143**	**504,203**	**162,932**	**135,491**	**101,120**	**2,224**	**–**	**1,567,333**	**295,949**	**–**	**–**	**3,541,095**	**782,144**	**4,323,239**
fixed interest	725,778	214,876	504,189	162,430	135,491	101,120	2,224	–	8,778	–	–	–	1,376,460	478,426	1,854,886
variable interest	606,066	7,267	14	502	–	–	–	–	1,558,555	295,949	–	–	2,164,635	303,718	2,468,353
Liabilities from issued securities	**6**	**5,097**	**13**	**8,730**	**5,381**	**38,543**	**12,908**	**8,295**	**71,067**	**191**	**–**	**–**	**89,375**	**60,856**	**150,231**
fixed interest	6	4,848	13	6,578	5,381	35,587	12,908	8,295	71,067	191	–	–	89,375	55,499	144,874
variable interest	–	249	–	2,152	–	2,956	–	–	–	–	–	–	–	5,357	5,357
Derivative financial instruments	**1,248,271**	**98,126**	**1,083,679**	**640,110**	**158,671**	**134,008**	**190,632**	**6,931**	**40,977**	**72,001**	**227,762**	**315,022**	**2,949,992**	**1,266,198**	**4,216,190**
fixed interest	635,192	88,963	418,185	143,566	157,950	125,122	190,632	6,931	40,977	72,001	–	–	1,442,936	436,583	1,879,519
variable interest	613,079	9,163	665,494	496,544	721	8,886	–	–	–	–	–	–	1,279,294	514,593	1,793,887
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	227,762	315,022	227,762	315,022	542,784
Subordinated bonds and loans	**–**	**–**	**–**	**–**	**–**	**266,063**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**266,063**	**266,063**
fixed interest	–	–	–	–	–	266,063	–	–	–	–	–	–	–	266,063	266,063
NET POSITION	**(514,201)**	**841,823**	**372,507**	**188,389**	**55,413**	**(406,753)**	**(178,788)**	**167,341**	**(17,359)**	**(274,582)**	**355,627**	**(183,314)**	**73,199**	**332,904**	**406,103**

NOTE 36: EARNINGS PER SHARE

Earnings per share attributable to the Bank's ordinary shares are determined by dividing Net profit for the year attributable to ordinary share-holders, 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.

	2017	2016
Net profit for the year attributable to ordinary shareholders (in HUF mn)	251,550	172,378
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	278,873,206	278,350,340
Basic Earnings per share (in HUF)	**902**	**619**
Separate net profit for the year attributable to ordinary shareholders (in HUF mn)	251,550	172,378
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	278,949,440	278,402,662
Diluted Earnings per share (in HUF)	**902**	**619**

	2017	2016
Weighted average number of ordinary shares	280,000,010	280,000,010
Average number of Treasury shares	(1,126,804)	(1,649,670)
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS	**278,873,206**	**278,350,340**
Dilutive effect of options issued in accordance with the Remuneration Policy/Management Option Program and convertible into ordinary shares*	76,233	52,321
The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS	**278,949,440**	**278,402,661**

* In 2017 and 2016 dilutive effect is in connection with the Remuneration Policy.

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

As at 31 December 2017:

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

As at 31 December 2016:

	Net interest income and expense	Net non-interest gain and loss	Provision for impairment	Other comprehensive income
Cash, amounts due from banks and balances with the National Bank of Hungary	9,830	–	–	–
Placements with other banks, net of allowance for placement losses	10,461	–	(3)	–
Securities held for trading	1,027	2,210	–	–
Securities available-for-sale	35,766	44,189	–	53,662
Loans, net of allowance for loan losses	112,558	18,282	7,503	–
Securities held-to-maturity	41,327	–	–	–
Derivative financial instruments	6,869	473	–	–
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	(16,050)	–	–	–
Deposits from customers	(12,897)	113,486	–	–
Liabilities from issued securities	(1,329)	–	–	–
Subordinated bonds and loans	(13,721)	–	–	–
Other	25	–	–	–
Total	**173,866**	**178,640**	**7,500**	**53,662**

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

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

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

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

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

For classes of assets and liabilities not measured at fair value in the statement of financial position, the income approach was used to convert future cash-flows to a single current amount. Fair value of current assets is equal to carrying amount, fair value of liabilities from issued securities and other bond-type classes of assets and liabilities not measured at fair value measured based on Reuters market rates and, fair value of other classes not measured at fair value of the statement of financial position are measured using the discounted cash-flow method. Fair value of loans, net of allowance for loan losses measured using discount rate adjustment technique, the discount rate is derived from observed rates of return for comparable assets or liabilities that are traded in the market. Fair value measurements – in relation to instruments measured not at fair value – are categorized in level 2 of the fair value hierarchy.

a) Fair value of financial assets and liabilities

	2017		2016 (restated)		2015 (restated)	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Cash, amounts due from banks and balances with the National Bank of Hungary	399,124	399,124	928,846	928,955	1,326,197	1,327,460
Placements with other banks, net of allowance for placement losses	978,098	990,581	915,654	926,857	647,724	666,128
Financial assets at fair value through profit or loss	303,927	303,927	168,188	168,188	180,717	180,717
Held for trading securities	**206,715**	**206,715**	**44,612**	**44,612**	**22,140**	**22,140**
Derivative financial instruments classified as held for trading	**97,212**	**97,212**	**123,576**	**123,576**	**158,577**	**158,577**
Securities available-for-sale	1,735,902	1,735,902	1,484,522	1,484,522	1,462,660	1,462,660
Loans, net of allowance for loan losses*	2,145,046	2,286,645	1,902,937	2,214,101	1,679,184	1,974,713
Securities held-to-maturity	1,043,779	1,149,034	858,150	937,640	824,801	883,697
Derivative financial instruments designated as hedging instruments	26,383	26,383	7,886	7,886	33,768	33,768
Other assets	78,715	78,715	92,331	92,331	65,056	65,056
FINANCIAL ASSETS TOTAL	**6,710,974**	**6,970,311**	**6,358,514**	**6,760,480**	**6,220,107**	**6,594,199**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	694,533	687,249	646,271	640,636	829,122	829,150
Deposits from customers	5,192,869	5,191,558	4,745,051	4,715,975	4,323,239	4,307,291
Liabilities from issued securities	60,304	76,701	104,103	124,855	150,231	168,338
Derivative financial instruments designated as hedging instruments	17,179	17,179	21,434	21,434	35,701	35,701
Financial liabilities at fair value through profit or loss	79,545	79,545	96,668	96,668	144,592	144,592
Subordinated bonds and loans	108,835	105,702	110,358	102,849	266,063	271,884
Other liabilities	185,023	185,023	307,500	307,500	191,496	191,496
FINANCIAL LIABILITIES TOTAL	**6,338,288**	**6,342,957**	**6,031,385**	**6,009,917**	**5,940,444**	**5,948,452**

* Fair value of loans increased in year ended 31 December 2017 and in the year ended 31 December 2016 due to decrease of short-term and long-term interests.

b) Fair value of derivative instruments

	Fair value 2017	Fair value 2016
Interest rate swaps classified as held for trading		
Positive fair value of interest rate swaps classified as held for trading	34,911	38,413
Negative fair value of interest rate swaps classified as held for trading	(30,871)	(33,031)
Foreign exchange swaps classified as held for trading		
Positive fair value of foreign exchange swaps classified as held for trading	24,436	23,385
Negative fair value of foreign exchange swaps classified as held for trading	(14,326)	(13,351)
Interest rate swaps designated as fair value hedge		
Positive fair value of interest rate swaps designated in fair value hedge	6,639	6,887
Negative fair value of interest rate swaps designated in fair value hedge	(17,179)	(20,607)
CCIRS classified as held for trading		
Positive fair value of CCIRS classified as held for trading	21,314	43,538
Negative fair value of CCIRS classified as held for trading	(22,759)	(36,189)
CCIRS designated as fair value hedge		
Positive fair value of CCIRS designated in fair value hedge	3,509	999
Negative fair value of CCIRS designated in fair value hedge	–	(827)
Other derivative contracts classified as held for trading		
Positive fair value of other derivative contracts classified as held for trading	16,551	18,240
Negative fair value of other derivative contracts classified as held for trading	(11,589)	(14,097)
Derivative financial assets total	**107,360**	**131,462**
Derivative financial liabilities total	**(96,724)**	**(118,102)**
Derivative financial instruments total	**10,636**	**13,360**

c) Hedge accounting

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

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

As at 31 December 2017:

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

As at 31 December 2016:

Types of the hedges	Description of the hedging instrument	Fair value of the hedging instrument	The nature of the risk being hedged
Cash-flow hedges	–	–	–
Fair value hedges	IRS	HUF (13,720) million	Interest rate
Fair value hedges	CCIRS	HUF 172 million	Interest rate/Foreign currency

d) Fair value hedges

1. Securities available-for-sale

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

OTP Bank holds floating interest rate bonds denominated in EUR within the available-for-sale portfolio. The cash-flows of the securities are exposed to the change in the EUR foreign exchange rate and the risk of change in interest rates of EUR. The interest rate risk and foreign exchange risk related to these securities are hedged with CCIRS transactions.

	2017	2016
Fair value of the IRS hedging instruments	(15,190)	(19,305)
Fair value of the CCIRS hedging instruments	–	(800)

2. Loans to customers/corporates

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

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

	2017	2016
Fair value of the hedging IRS instruments	(9)	(4)
Fair value of the hedging CCIRS instruments	3,509	972

3. Issued securities

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

	2017	2016
Fair value of the hedging IRS instruments	4,659	5,589

As at 31 December 2017:

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

As at 31 December 2016:

Types of hedged items	Types of hedging instruments	Fair value of the hedged items	Fair value of the hedging instruments	Gains/losses attributable to the hedged risk	
				on the hedged items	on the hedging instruments
Securities available-for-sale	IRS	HUF 853,804 million	HUF (19,305) million	HUF 11,723 million	HUF (13,619) million
Securities available-for-sale	CCIRS	HUF 156,739 million	HUF (289) million	HUF (1,760) million	HUF 1,760 million
Loans to customers	IRS	HUF 451 million	HUF (4) million	HUF (161) million	HUF 161 million
Loans to corporates	CCIRS	HUF 58,314 million	HUF 461 million	HUF (203) million	HUF 203 million
Liabilities from issued securities	IRS	HUF 69,959 million	HUF 5,589 million	HUF 7,512 million	HUF (7,512) million

e) Fair value classes

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

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

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

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

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

As at 31 December 2017:

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

As at 31 December 2016 (restated):

	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	167,672	28,035	139,637	–
from this: securities held for trading	44,096	27,948	16,148	–
from this: positive fair value of derivative financial instruments classified as held for trading	123,576	87	123,489	–
Securities available-for-sale	1,471,428	850,427	619,138	1,863
Positive fair value of derivative financial instruments designated as fair value hedge	7,886	–	7,886	–
Financial assets measured at fair value total	**1,646,986**	**878,462**	**766,661**	**1,863***
Negative fair value of derivative financial instruments classified as held for trading	96,668	267	96,401	–
Negative fair value of derivative financial instruments designated as fair value hedge	21,434	–	21,434	–
Financial liabilities measured at fair value total	**118,102**	**267**	**117,835**	**–**

As at 31 December 2015 (restated):

	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	180,284	13,878	166,406	–
from this: securities held for trading	21,707	13,857	7,850	–
from this: positive fair value of derivative financial instruments classified as held for trading	158,577	21	158,556	–
Securities available-for-sale	1,434,091	670,809	757,615	5,667
Positive fair value of derivative financial instruments designated as fair value hedge	33,768	–	33,768	–
Financial assets measured at fair value total	**1,648,143**	**684,687**	**957,789**	**5,667***
Negative fair value of derivative financial instruments classified as held for trading	144,592	34	144,558	–
Negative fair value of derivative financial instruments designated as fair value hedge	35,701	–	35,701	–
Financial liabilities measured at fair value total	**180,293**	**34**	**180,259**	**–**

There were no movements between the levels of fair value hierarchy for the year ended 2017, 2016 and 2015.

* The portfolio includes Visa Inc. "C" preferential shares.

NOTE 39: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2017

1) **Capital increase at OTP Real Estate Lease.**

2) **Capital increase at Air Invest Asset Management Ltd.**

3) **Capital increase at OTP banka Hrvatska.**

4) **Acquisition at Croatia.**

5) **Acquisition at Romania.**

6) **Acquisition at Serbia.**

7) **Capital increase at OTP Faktoring Ltd.**

See details in Note 9.

NOTE 40: POST BALANCE SHEET EVENTS

1) **Capital increase at OTP banka Srbija**

2) **Capital increase at OTP Banka Slovensko**

3) **Capital increase at OTP Bank Romania SA**

4) **Capital increase at Bank Center No. 1. Ltd.**

See details in Note 9.

5) **Transition to application of IFRS 9**

See details in Note 1.2.2.

NOTE 41: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE BANK'S FINANCIALS

In 2017 the **eurozone** was clearly back on the map of growth, with recovery gaining momentum as a result of previously launched reforms, the end of fiscal tightening, but mostly because of the improving labour market. Preliminary data indicate that the eurozone's GDP grew by 2.5% in 2017, topping by a large margin analysts' forecasts, which estimated only 1.3–1.5% growth a year ago. With employment breaking records, consumer confidence and business sentiment hit all-time or ten-year highs, domestic demand picked up, helping Europe's economy leave the early stage of recovery and enter the phase of matured, broad-based growth, which can pave the way for lasting robust growth if external conditions remain favourable. In the years ahead, monetary policy will support economic growth, because despite the good prospects the European Central Bank is likely to be rather cautious in normalizing monetary conditions. The ECB extended the length of its quantitative easing programme by additional nine months, until September 2018, reducing monthly purchases from EUR 60 billion to EUR 30 billion, and interest rate hikes are unlikely before 2019.

Over the past quarters, the **US economy** fared well. Although markets expected its growth to decelerate, by now these forecasts have shifted higher, to 2.6% year/year (2018) and to 2.2% (2019). In the first estimate, the US economy expanded by 2.3% (year/year) in full-year 2017. It took one year for Donald Trump to deliver on one of his key election promises, and pass the tax reform, which undoubtedly benefits the high-income earners. Meanwhile the Fed raised interest rates by 25 basis points (to 1.25–1.5%) three times in 2017, continuing similar moves in December 2015 and December 2016.
The minutes of the December FOMC meeting reveal that the Fed's decision-makers plan two to four hikes, while the market expects two to three increases in 2018.

Hungary's full-year 2017 GDP growth surpassed all expectations, including our forecast. The 4% reading is the second strongest one since 2005 (it was 4.2% in 2014) but this is not outstanding in regional comparison: Romania sky-rocketed 6.9%, Poland surged 4.6%, and the Czech Republic expanded by 4.5%. The key driver of this robust expansion remained private consumption, which was coupled with an undoubted rise in private investment in 2017. The latter can be attributed to the rapid improvement in the real property sector as well as the technology developments necessitated by the capacity constraints in commercial and industrial real estates. Starting from the second half of 2017, agreements linked to EU projects resumed, giving a big boost to investment (in addition to a low base in 2016): its value added may have expanded by more than 20% last year, while the final consumption of households may have increased by about 4.5%. Nevertheless, economic actors are more cautious about manufacturing investments. Therefore, the stronger external demand caused by the more-robust-than-earlier-though upswing in the eurozone (2.5% economic growth versus the 1.5% forecast at the beginning of 2017) did not result in significant jump in industrial production or in the volume of exports.
On balance, private sector without agriculture had a very strong year, growing by more than 6% year/year in the second half of 2017.

Hungary's balance indicators are favourable, the budget deficit remained modest despite the coming parliamentary elections, but public debt ratio is not shrinking as fast as had been expected, mostly because Eximbank's debt was re-classified as public sector debt. Owing to the import needs stemming from the strong domestic demand and the modest growth of exports, Hungary's external position started to deteriorate: the current account surplus shrank 2.4 percentage points, to 3.8% of GDP in 2017. The decline in external debt is slowing but that is not worrisome; the debt level is in line with the average of the CEE region.

Reversing the rise seen at the beginning of this year, the consumer price index started to drop in the autumn; the year/year index sank to nearly 2% by the turn of the 2017–2018 years. This owed a lot to fuel prices, the lower-than-expected food prices, and the surprisingly huge price fall in telecommunications services (due to VAT cuts in 2017 and 2018, and as roaming fees were abolished in July 2017). In 2018, one-off items help keep inflation around 2% (as the effects of cutting VAT and employers' contributions, and lifting excise duty and milk prices in 2017 all fade out) while in the corporate sector the (two years of) contribution cuts, and the efficiency improvement can still offset the cost pressure caused by double-digit wage growth. Therefore we do not expect considerable price hikes.

This helps the MNB maintain extra loose monetary conditions: short-term interest rates will remain near zero until the second half of 2019, while the long end of the yield curve is likely to move together with developed economies' benchmarks, in line with the communication of the Monetary Council's January rate-setting meeting. The MNB is unlikely to allow the forint's firming, but the Hungarian currency's exchange rate may move in the opposite direction. If the extra loose monetary conditions in Hungary, a slightly deteriorating external balance, and the increasingly tight monetary environments in the USA and the eurozone warrant a slight HUF depreciation, Hungary's central bank is unlikely to take action.

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 2017 banking tax calculation the end-2015 adjusted total assets must be used). The applicable upper tax rate has been moderated to 0.21%. The total annual amount of the banking tax payable in 2017 was already booked in one sum in 1Q 2017. Furthermore, the contribution tax introduced in 2006 was entirely abolished. In 2016 its annual amount was HUF 2 billion.

Effective from 1 January 2017 the **Hungarian corporate tax rate** was cut uniformly to 9%.

In 2017 the state subsidized housing loan disbursements represented 52.6 billion at OTP's Hungarian operation, up by 13% y-o-y, partially due to the additional demand generated by the **Housing Subsidy Scheme for Families** (CSOK). In 2017 around 10,800 applications for the CSOK subsidy were registered with a value of HUF 39 billion. Applicants also combined CSOK subsidy with subsidized or market-based loan applications in the amount of HUF 63 billion in 2017.

In 2016 the National Bank of Hungary launched the third, so called "phasing out" stage of the **Funding for Growth Scheme,** under which the deadline for concluding loan contracts was 31 March 2017. According to the data published by the NBH on 5 April 2017 the Hungarian credit institutions participating in the third part of the FGS scheme have granted loans to Hungarian micro and SME companies in the amount of HUF 685 billion since the beginning of 2016, whereas OTP contracted for HUF 102 billion under the scheme.

Summary of the National Bank of Hungary's steps influencing interest rate and yield levels: According to the decision of the Monetary Council, the maximum amount of 3 months deposits placed with the central bank at the end of March 2017 was reduced to HUF 750 billion. For the end of June 2017 the limit was set at HUF 500 billion and at HUF 300 billion for September, respectively.

On 19 September the Monetary Council set a limit of HUF 75 billion applicable from the end of 2017, whereas it also reduced the overnight deposit rate by 10 bps to –15 bps.

Driven also by the above decisions, the Hungarian money market interest rates sank to their historic lows: by the end of 2017 the 3M BUBOR diminished to 3 bps from 15 bps in September 2017 and 37 bps at the end of 2016.

After its September meeting the Monetary Council stressed that the stock of swap instruments will be increased in the coming period in order to provide the loosening effect up to the longest possible section of the yield curve as soon as possible.

On its meeting held on 21 November the Council decided to introduce two unconventional instruments from January 2018 with an aim of loose monetary conditions to exert their effect not only at the short but also at the longer end of the yield curve. Pursuant to this,

- the Council introduced unconditional interest rate swap (IRS) facilities with five and ten-year maturities, the allocation amount of which has been set at HUF 300 billion for the first quarter of 2018. The IRS facilities are available for counterparty banks at regular tenders from the beginning of January 2018. The first tender was held on 18 January 2018. On 24 January 2018 the central bank revealed that it will announce its monetary policy interest rate swap facility at fixed rate tenders in the future (available for counterparty banks only), and the allocation among banks will be based upon balance sheet totals;
- additionally, the central bank launched a targeted programme, aimed at purchasing publicly issued, fixed-rate mortgage bonds from Hungarian issuers, denominated in forint, with an original maturity of at least 3 years and a current residual maturity of 1 year.

Both programmes contribute to an increase in the share of loans with long periods of interest rate fixation, thereby improving financial stability. The operational details of the programmes were disclosed by the central bank on 21 December 2017. The experiences from the consultation with market participants have also been incorporated by the central bank into the programmes.

Long-term yields decreased significantly in 4Q 2017. By the end of 2017 the 10 year government bond benchmark yield sank to 2.02% from 2.58% in September and 3.16% at the end of 2016.

The Budapest Stock Exchange, in cooperation with the MNB introduced three new mortgage bond indices in December 2017, which, at a later stage, may be potentially employed as official benchmarks also, according to the announcement.

At the end of December 2017 OTP kept HUF 17 billion in three-month central bank deposits. As for the distribution of the liquidity reserves of the Bank, during the last twelve months there has been a gradual shift towards longer duration Hungarian government securities.