DOCUMENTS FOR THE ANNUAL GENERAL MEETING

ANNUAL GENERAL MEETING OF OTP BANK PLC.

TO BE HELD ON 13 APRIL 2018

DATE AND VENUE OF THE AGM: 13 APRIL 2018, 10 A.M.
SOFITEL BUDAPEST CHAIN BRIDGE

AGENDA ITEMS OF THE ANNUAL GENERAL MEETING

THE REPORT OF THE BOARD OF DIRECTORS ON THE COMPANY'S BUSINESS OPERATIONS IN 2017

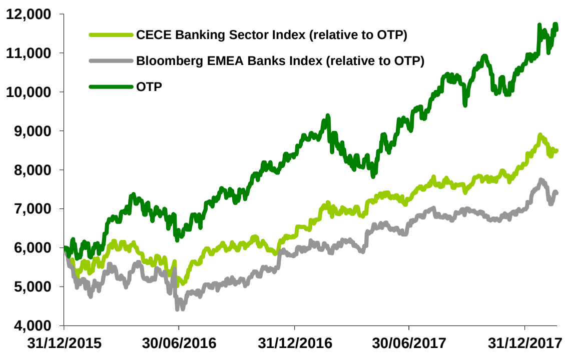
BUSINESS REPORT
OTP BANK PLC. (SEPARATE)

Based on the judgment of the Bank's management, the separate business report's data can be interpreted fully only together with the consolidated processes and figures, so this business report contains consolidated data as well.

CONSOLIDATED FINANCIAL HIGHLIGHTS[1] AND SHARE DATA

Main components of the Statement of profit or loss	2016 HUF million	2017 HUF million	Change %
Consolidated after tax profit	**202,452**	**281,339**	**39**
Adjustments (total)	**1,276**	**(2,733)**	**(314)**
Consolidated adjusted after tax profit without the effect of adjustments	**201,176**	**284,072**	**41**
Pre-tax profit	244,772	321,421	31
Operating profit	335,900	363,159	8
Total income	736,316	804,946	9
Net interest income	521,949	546,654	5
Net fees and commissions	175,966	209,428	19
Other net non-interest income	38,400	48,864	27
Operating expenses	(400,416)	(441,788)	10
Total risk costs	(93,218)	(45,682)	(51)
One off items	2,090	3,945	89
Corporate taxes	(43,596)	(37,349)	(14)
Main components of balance sheet closing balances	2016 (Restated[2])	2017	%
Total assets	11,209,041	13,190,228	18
Total customer loans (net, FX adjusted)	**5,665,091**	**6,987,834**	**23**
Total customer loans and advances (gross)	**6,680,504**	**7,690,419**	**15**
Total customer loans (gross, FX adjusted)	**6,571,364**	**7,690,419**	**17**
Allowances for possible loan losses	(944,273	(702,585)	(26)
Allowances for possible loan losses (FX adjusted)	(906,273	(702,585)	(22)
Total customer deposits (FX adjusted)	**8,428,360**	**10,233,471**	**21**
Issued securities	146,900	250,320	70
Subordinated loans	77,458	76,028	(2)
Total shareholders' equity	1,420,650	1,640,055	15
Indicators based on adjusted earnings	2016 (Restated)	2017	pps
ROE (from accounting net earnings)	15.4%	18.5%	3.1
ROE (from accounting net earnings, on 12.5% CET1 ratio)	17.6%	22.4%	4.8
ROE (from adjusted net earnings)	15.4%	18.7%	3.4
ROA (from adjusted net earnings)	1.9%	2.4%	0.5
Operating profit margin	3.10%	3.03%	(0.07)
Total income margin	6.79%	6.71%	(0.09)
Net interest margin	4.82%	4.56%	(0.26)
Cost-to-asset ratio	3.70%	3.68%	(0.01
Cost/income ratio	54.4%	54.9%	0.5
Risk cost to average gross loans	1.14%	0.43%	(0.71)
Total risk cost-to-asset ratio	0.86%	0.38%	(0.48)
Effective tax rate	17.8%	11.6%	(6.2)
Net loan/(deposit+retail bond) ratio (FX adjusted)	66%	68%	2
Capital adequacy ratio (consolidated, IFRS) - Basel3	16.0%	14.6%	(1.4)
Tier1 ratio - Basel3	13.5%	12.7%	(0.9)
Common Equity Tier1 ('CET1') ratio - Basel3	13.5%	12.7%	(0.9)
Share Data	2016	2017	%
EPS base (HUF) (from unadjusted net earnings)	765	1,074	40.3
EPS diluted (HUF) (from unadjusted net earnings)	765	1,074	40
EPS diluted (HUF) (from adjusted net earnings)	761	1,085	43
Closing price (HUF)	8,400	10,720	28
Highest closing price (HUF)	8,411	10,930	30
Lowest closing price (HUF)	5,714	7,815	37
Market Capitalization (EUR billion)	7.6	9.7	28
Book Value Per Share (HUF)	5,074	5,857	15
Tangible Book Value Per Share (HUF)	4,487	5,219	16
Price/Book Value	1.7	1.8	11
Price/Tangible Book Value	1.9	2.1	10
P/E (trailing, from accounting net earnings)	11.6	10.7	(8)
P/E (trailing, from adjusted net earnings)	11.7	10.6	(10)
Average daily turnover (EUR million)	15	15	(4)
Average daily turnover (million share)	0.7	0.5	(30)

SHARE PRICE PERFORMANCE



MOODY'S RATINGS

OTP Bank - FX long term deposits	Baa3
OTP Mortgage Bank - Covered mortgage bond	Baa1

S&P GLOBAL RATINGS

OTP Bank and **OTP Mortgage Bank -** FX Long term credit rating	BBB-

DAGONG GLOBAL RATING

OTP Bank - FX long term credit rating	BBB+

FITCH RATING

OTP Bank Russia - Long term credit rating	BB

[1] Structural adjustments made on consolidated IFRS profit and loss statement as well as balance sheet, together with the calculation methodology of adjusted indicators are detailed in the Supplementary data section of this Report.
[2] Certain balance sheet items have been restated for 2016. For details see the Supplementary data section.

MANAGEMENT'S ANALYSIS OF THE FULL-YEAR 2017 RESULTS OF OTP GROUP

According to the preliminary data published on 14 February 2017 the Hungarian GDP grew by 4.2% (seasonally and working-day adjusted) due to the robust increase in 4Q (+4.8%). As a result 2017 stands out as one of the most successful years in the history of the Hungarian economy. The growth rate was amongst the fastest ones in Europe and economic expansion is broad-based, while the balance indicators are stable and improving. According to the preliminary statistics the fiscal deficit could be around 2% of GDP, whereas the public debt to GDP moderated further (74%). The yearly wage increase in excess of 10% boosted household consumption which expanded by 4.3%, and investments grew by more than 20% y-o-y. In 2017 the average annual inflation was 2.4%. The strengthening economic metrics have been coupled with accommodative monetary policy and a favourable external environment.

The sovereign rating was back to investment grade again (Baa3/BBB-) by all major rating agencies. In the case of Fitch and S&P the outlook is positive which might induce further upgrades, whereas it is stable at Moody's. The current sovereign credit spreads also indicate potential rating improvement in the medium-run.

The Hungarian Central Bank has continued to pursue an expansionary monetary policy which has constantly and efficiently supported the sustainable growth of the economy. Local government yields dropped all across the curve y-o-y.

As for 2018, the Government and the Central Bank forecast GDP growth exceeding 4%. The key engine is going to be the strengthening local consumption, albeit the favourable West-European economic recovery provides a good platform for export growth, too. Amid the tight labour market, the wage agreement reached by the end of 2016, as well as certain government measures might result in a somewhat moderating wage increase below 10%. In 2018 the average CPI may be around 2.6%, i.e. falling short of the 3% inflation target set by the Central Bank.

2017 brought a visible recovery in lending activity in Hungary; alongside the corporate exposures the household sector also demonstrated net volume growth (+1.3% y-o-y). New mortgage origination was outstandingly strong: according to NBH's preliminary statistics new volumes surged by over 30% y-o-y. Interest levels dropped by almost 1 pp for newly disbursed housing loans (4.46%), the reduction was material for both floating and fixed rate mortgages.

As for the rest of the Group, all markets within OTP universe witnessed GDP growth, the overall macro environment improved and several countries enjoyed sovereign rating upgrades (Bulgaria, Serbia, and Croatia). For 2018 OTP management forecasts further improvement. In Ukraine GDP growth may exceed 3%, while in Russia the economic growth may reach 2.5% according to OTP's forecast. In both countries local currencies are expected to remain relatively stable.

Regarding the interest rate environment in 2017 most of the countries within OTP's universe witnessed further reduction: in Hungary the reference rate (3M BUBOR) dropped from 37 bps to 3 bps y-o-y, in Bulgaria it hovered around zero for most of the year, and in Russia CBR cut the base rate from 10% to 7.75%. In Ukraine and Romania this trend turned around: the Ukrainian central bank made two consecutive 100 bps rate hikes in 4Q 2017; as a result the base rate stood at 14.5% at the end of 2017, whereas in Romania the interest rate corridor was tightened. Albeit the management still forecasts low/benign interest rate environment for 2018, in a couple of countries central banks became more cautious: in Ukraine there was a 150 bps rate hike in January, while in Romania the central bank further tightened monetary conditions (by 25-25 bps rate hikes in January and February).

Consolidated results: over HUF 284 billion after tax profit in 2017 with moderating NIM; risk costs halved and credit quality kept improving

In 2017 OTP Group posted its highest ever consolidated accounting and adjusted profit; such a performance was shaped by several factors. The single most important one was the operating environment becoming supportive in every market; amid the decreasing interest rate environment the negative impact of eroding net interest margin on net interest income was overall offset by dynamically expanding performing loan volumes backed by strengthening business activity. Additionally, the credit quality improved further, coupled with lower risk costs and occasionally with provision write-backs. Acquisitions also had a positive effect on y-o-y profit dynamics: the Croatian Splitska banka added 8 months of its earnings to consolidated profit, the Serbian Vojvodjanska banka 1 month, and there was a positive base effect related to the take-over of the AXA portfolio in Hungary (in 2016 only 2 months earnings were consolidated). Finally, the lower Hungarian corporate tax rate (cut from 19% to 9% effective from 1 January 2017) also had a positive effect on the bottom line profit.

The consolidated accounting profit was HUF 281.3 billion in 2017 versus HUF 202.5 billion in the base period.

The annual accounting ROE was 18.5%. The adjusted ROA stood at 2.37% (+0.51 pp y-o-y).

In 2017 as a whole adjustment items amounted to -HUF 2.7 billion (after tax) and were as follows:

- In 2017 the banking taxes paid by Group members resulted in an after tax negative impact of HUF 15.2 billion, including the Hungarian special tax of financial institutions and the Slovakian banking levy. As for the Hungarian banking tax, the base for calculating the 2017 levy did change, i.e. it was the adjusted total assets at the end of 2015; the applicable upper rate was reduced to 0.21%.
- -HUF 6.1 billion (after tax) negative tax effect related partly to the reversal of impairment charges booked in relation to certain subsidiaries; also, at OTP Bank Slovakia there was a HUF 0.5 billion goodwill write-off;
- +HUF 17.7 billion acquisition effect related partially to the gain on bargain purchase on Splitska and Vojvodjanska banka's acquisition and some expected integration expenses;
- +HUF 0.7 billion dividend and net cash transfer (after tax).

Since the 2017 P&L lines incorporate 8 months results from Splitska banka and 1 month from Vojvodjanska banka, the y-o-y comparison of the Group performance is somewhat difficult. Overall, the core figures reflect favourable business and income dynamics let them be based on organic or acquisition-supported trends.

In 2017 OTP Group posted HUF 284.1 billion adjusted after-tax profit (+41% y-o-y) Adjusted for the positive impact of the Splitska banka and Vojvodjanska banka acquisitions (in total HUF 11 billion) the increase would be 36% y-o-y. The annual corporate tax burden declined by HUF 6.2 billion which was partially explained by the y-o-y 10 pps lower Hungarian corporate tax rate, and as a result the consolidated effective tax rate dropped substantially in 2017 (11.6%). Profit before tax expanded by 31% y-o-y.

Within the annual consolidated adjusted profit the following group members posted outstanding results: OTP Core (HUF 168.6 billion), DSK Bank (HUF 47.1 billion), OTP Bank Russia (HUF 27.8 billion), the Croatian operation (HUF 17.1 billion, o/w the contribution of Splitska was HUF 10.9 billion) and Ukraine (HUF 14.1 billion). The annual profit in Bulgaria remained stable y-o-y, whereas all others saw an improvement. Furthermore, both Merkantil (the leasing company) and OTP Fund Management managed to further boost bottom line earnings y-o-y, while in Romania profit surged by 83% y-o-y. At the same time the Montenegrin and Slovakian subsidiaries remained in the red and the Serbian subsidiary couldn't repeat its profitable 2016 performance and posted a negative result. There hasn't been any meaningful turnaround at the Russian on-line bank (Touch Bank) and it suffered its third consecutive loss-making year (-HUF 7.4 billion).

It was positive that the consolidated total income (adjusted for one-off revenue items) advanced by 9% y-o-y, and even without the positive impact of the Splitska consolidation the increase was 5%. The annual operating profit increased by 8% y-o-y (+4% adjusted for Splitska), whereas total risk costs halved.

It was particularly encouraging that despite further eroding net interest margin the annual net interest income even without Splitska banka grew by 1% y-o-y (+5% including Splitska) supported by the increase of performing loans. The good total income stream was mainly induced by the dynamic expansion of net fees and commissions (+19% y-o-y and +15% without Splitska); furthermore other net non-interest income also grew by around HUF 10.5 billion y-o-y. There were several larger items causing one-off growth in other income: the consolidation of Splitska resulted in an increase of +HUF 3.3 billion; at DSK Bank around HUF 1.1 billion arose because interest claims related to off-balance sheet items of the Bulgarian factoring company have been revised, and also, the fair value adjustment of derivatives shifted into the net interest income boosted this line by HUF 2 billion.

The annual net interest margin was 4.56% underpinning a 26 bps y-o-y erosion as a result of declining interest environment, intensifying competition, the composition effect of lower NIM at Splitska banka and the dilution effect of higher total assets on the back of dynamic deposit inflows. It is important to note that without the consolidation of Splitska banka the annual NIM erosion would have been only 16 bps, in line with the forecast given by the management for 2017 (15-20 bps NIM erosion).

Consolidated annual operating expenses went up by 10% y-o-y, whereas without the effect of the acquired banks the FX-adjusted increase was 4.6%. Higher personnel expenses (+7% y-o-y without Splitska) were fuelled by wage inflation and also by higher number of employees, whereas in Hungary the contribution tax paid by the employer shrank by 5 pps y-o-y. Administrative expenses were pushed up by increasing marketing costs explained by the stronger business activity, but also higher advisory costs related to acquisitions and business development projects and finally, the on-going digital transformation required additional expenses, too.

The FX-adjusted gross loan portfolio expanded by 17% y-o-y. Due to the write-offs and sale of non-performing portfolio, underlying trends are better represented through the performing loan volume trends. The performing (DPD0-90) portfolio grew by 25%. Adjusted for the acquisitions the annual increase would demonstrate a 10% yearly organic growth. It was positive that in 2017 the FX-adjusted performing loan portfolio increased in all countries and in all major segments. There was a substantial y-o-y increase in Hungary (+11%), Russia (+22%), Ukraine (+11%), Romania (+10%) and Bulgaria (+7%). The Croatian loan book grew by 6% organically, and with the consolidation of Splitska banka the expansion was 153% y-o-y. The Serbian performing book increased almost four-fold as a result of the consolidation of Vojvodjanska banka in December.

As for the major product categories: the large corporate exposures grew the fastest (+33%, without acquisition +16%), while the performing consumer book increased by 32% y-o-y, the SME book by 14% and the mortgage loans by 10% (+2% without acquisitions).

The FX-adjusted deposit book grew by 21% y-o-y, without acquisitions by 8%, respectively. As a result the consolidated net loan-to-(deposit+retail bonds) ratio increased by 1.8 pp y-o-y, reaching 68.3%.

The volume of issued securities leaped by 70% y-o-y, the Hungarian retail bonds practically disappeared, at the same time the volume of covered bonds increased substantially induced partly by regulatory requirements.

The volume of securities comprised HUF 3,699 billion at the end of 2017 (+38% y-o-y), the bulk of which was government securities. The y-o-y significantly growing liquidity surplus was invested mostly into Hungarian and foreign sovereign papers.

At the end of 2017 the Group' gross liquidity reserves comprised EUR 8.3 billion equivalent.

Similar to previous years the Group continued selling/writing off non-performing volumes. In 2017 the total amount comprised HUF 255 billion (FX-adjusted).

In line with the management forecast and the improving macroeconomic environment the development of DPD90+ volumes remained favourable: DPD90+ volumes (adjusted for FX and the effect of sales and write-offs) grew by HUF 50.8 billion in 2017, against HUF 77 billion in 2016.

The consolidated DPD90+ ratio declined substantially, by 5.5 pps y-o-y and stood at 9.2% at the end of 2017. The last time the ratio was below 10% in 2009. The lower DPD90+ ratio was supported not only by non-performing loan sales and write offs, but also by the acquisitions: in case of the acquired banks the DPD90+ volumes were consolidated net of provisions. In Hungary the DPD90+ ratio was 6.4% at the end of 2017.

OTP Core: HUF 168.6 billion adjusted net earnings; continuing NIM erosion, 11% performing volume growth, favourable credit quality trends

The adjusted after tax profit of **OTP Core** (basic activity in Hungary) reached HUF 168.6 billion in 2017, underpinning a 38% y-o-y increase.

The annual result was shaped by higher operating profit (+5% y-o-y without one-offs) and favourable risk cost trends. Annual total income increased by 3% mainly as a result of better net fees and commission supported by improving business activity. At the same time net interest income remained practically flat y-o-y which is quite an achievement given the y-o-y 27 bps net interest margin erosion (2017: 3.22%). NIM was negatively affected by the dilution effect as a result of deposit inflows, but also by the reference rate (3M BUBOR) dropping by 34 bps y-o-y and the whole Hungarian credit curve declining significantly.

Operating expenses for the whole year grew only moderately (+2% y-o-y) despite strong wage inflation and higher advisory and marketing expenses induced by strengthening business activity.

Positive credit quality trends continued: the DPD90+ volumes declined. This effect, coupled with the overall loan portfolio increase, resulted in lower DPD90+ ratio (6.4%, -3.4 pps y-o-y). As a result of the improving portfolio quality HUF 30.8 billion of provisions were released in 2017.

The long-awaited turnaround in credit growth finally kicked in across all product categories: the performing portfolio expanded by 11% y-o-y (FX-adjusted), within that the consumer book grew by 25%, the corporate exposure by 18%, the SME by 13% and the mortgage book by 2%.

The FX-adjusted deposits (including retail bonds) increased steadily (+10% y-o-y), and as a result the Bank's net loan-to-deposit ratio was 49%, practically unchanged y-o-y.

Merkantil Bank and Car more than tripled its adjusted annual net earnings realizing almost HUF 8.3 billion, the highest ever profit. Such a good performance was mainly shaped by provision releases throughout 2017. The FX-adjusted performing loan book grew by 9% y-o-y.

OTP Fund Management posted improving annual profits in 2017 (+24% y-o-y); the HUF 8.3 billion after tax earnings were the highest ever due to excellent fee income. The company's market position improved by 0.4 pps y-o-y, retaining their market leading position.

Foreign subsidiaries' annual performance: stable Bulgarian, improving Russian, Ukrainian, Croatian and Romanian performance, loss-making operations in Slovakia, Serbia and Montenegro as a result of prudent provisioning

The ***Bulgarian subsidiary*** posted almost the same bottom-line results in 2017 as in 2016; the annual profit of HUF 47.1 billion underpins a y-o-y 1% decline. It is still the second biggest net earnings across the Group.

Annual operating profit decreased by 12% y-o-y, within that total income moderated by 4% y-o-y. The lower NII (-14% y-o-y) reflects eroding margins: the annual NIM (3.85%) tightened by 75 bps. The lower NIM was mainly related to the repricing of the retail portfolio. Strong business activity boosted net fees and commissions (+6%y-o-y). The performing loan portfolio advanced by 7%y-o-y with all major segments increasing: the corporate book grew by 13%, but mortgages also demonstrated a decent growth. The FX-adjusted deposits expanded by 6% y-o-y, and as a result the net loan-to-deposit ratio marginally grew (66%).

The portfolio quality kept further improving and the DPD90+ ratio dropped substantially, by 3.5 pps y-o-y to 7.9%. The volume of total risk costs almost halved y-o-y, as a result the risk cost rate in 2017 was 0.31%.

The bank's profitability was outstanding, the annual ROE stood at 20.0%.

The profitability of the ***Russian subsidiary*** improved further and in 2017 the bank posted HUF 27.8 billion after-tax results (without Touch Bank) underpinning a 35% y-o-y increase. Since the average rate of the RUB strengthened 11% y-o-y against the HUF, the performance is better measured in local currency.

In RUB terms the annual net results grew by 22% y-o-y. Operating income improved by 4%, the higher total income (+6%) offset the negative impact of increasing operating expenses (+8% y-o-y). It was positive that the y-o-y marginally weaker net interest income was offset by the robust increase of net fees and commissions (+47%). Amid the continuously decreasing interest rate environment the annual NIM dropped by 96 bps in RUB terms (16.86%).

The credit quality kept improving: in 2017 DPD90+ volumes (adjusted for FX, sale and write offs) grew by HUF 32.7 billion versus HUF 47.5 billion in 2016. As a result of this, but also due to sales/write offs the DPD90+ ratio declined to 15.8% (-4.4 pps y-o-y).The annual risk cost rate stood at 7.35% (-0.83 pp y-o-y).

Performing loan volumes surged by 22% y-o-y. FX-adjusted deposit volumes increased by 9%y-o-y.

The bank's annual ROE stood at 21%.

From a legal point of view **Touch Bank** is part of OTP Bank Russia and operating under the same banking license, but as a separate digital banking business line. In 2017 the bank remained in the red already for the third consecutive year (-HUF 7.4 billion, in RUB terms +13% y-o-y). Despite the bank reached some results in client acquisition and lending – the FX-adjusted loan book increased more than eight-fold y-o-y to HUF 12.8 billion – the performance fell short of the management's expectations. Apart from high operating expenses, elevating risk costs was the key reason behind the bank's loss-making performance.

The ***Ukrainian subsidiary*** improved its annual profit in 2017 by 38% y-o-y and reached HUF 14.1 billion. While the local currency remained fairly stable against previous years' performance, on average UAH depreciated 6% against HUF, i.e. the performance is better in UAH terms.

The annual profitability in UAH was mainly shaped by the 83% y-o-y decrease in risk costs; operating profit dropped by 9% y-o-y as total income moderated by 1%, however operating expenses grew by 12% y-o-y. The annual NII came down by 7%: the meaningful erosion of the net interest margin (2017: 7.46%, -156 bps y-o-y) could be only partly counterbalanced by the 11% increase of performing loan volumes. Net fees and commissions surged by 19% y-o-y supported by stronger business activity and increasing transaction volumes.

The Bank's ROE was 47.1%, the highest amongst subsidiary banks.

Credit quality trends were clearly positive: DPD90+ volumes (FX-adjusted, without sales/write offs) declined by HUF 1.3 billion y-o-y. The DPD90+ ratio dropped to 26.4% (-15.5 pps y-o-y), mainly as a result of HUF 64.2 billion non-performing portfolio sales and write off.

Performing volumes grew by 11% y-o-y, within that corporate exposure increase by 10%, whereas the consumer loan book by 43%, respectively. Mortgage lending is still suspended, but in 2017 car financing was resumed and performing volumes grew by 43% y-o-y (albeit from a low base). The FX-adjusted deposits expanded by 18%. The net-loan-to-deposit ratio slightly increased y-o-y (84%).

The outstanding intragroup exposure towards the whole Ukrainian operation eroded further and by the end of 4Q 2017 dropped to HUF 29 billion equivalent.

The total **Croatian operation** posted above HUF 17.1 billion net profit in 2017, without the contribution of Splitska banka (for 8 months HUF 10.9 billion) it represented HUF 6.2 billion (+63% y-o-y). As a result of the acquisition the annual performance is difficult to compare to 2016 however certain indicators already manifest the positive impact of the deal. The annual ROE was 9.3% (2016: 5.2%), whereas the cost-to-income ratio declined to 54.8% (-2.2 pps y-o-y).

The performing loan portfolio surged by 153% y-o-y. Without Splitska banka the increase was 6%. The credit quality of the portfolio improved: the DPD90+ ratio decreased to 6.6% (-5.5 pps y-o-y).

The ***Romanian subsidiary***'s adjusted annual profit exceeded HUF 3 billion (+83% y-o-y). The 4Q profit was HUF 1 billion. Operating income improved by 9% y-o-y; alongside the 2% increase of total income (within that both NII and fees and commissions declined), operating expenses moderated by the same magnitude. Annual total risk costs dropped by 16% y-o-y. The net interest margin for 2017 eroded by 12 bps (3.27%), but the pace of decline moderated y-o-y. The performing loan volumes grew by 10% y-o-y (FX-adjusted) supported by a dynamic expansion of the consumer and SME exposures. The net loan-to-deposit ratio increased to 142%. The DPD90+ ratio declined to 13.5%.

After a loss-making year in 2016 the **Slovakian subsidiary** remained in the red in 2017, too (-HUF 2.0 billion). The operating income eroded by 2% y-o-y, the major income lines suffered a setback. It was only partially offset by lower operating expense (-2% y-o-y). Total risk costs dropped by 9% y-o-y. Amid fierce pricing competition the bank failed to stabilize its NIM (2017: 2.98%, -16 bps y-o-y). Performing volumes grew moderately y-o-y (+1%). The portfolio quality stabilized: the DPD90+ ratio moderated to 9.4% (-1.8 pps y-o-y).

The ***Serbian subsidiary*** posted HUF 2.9 billion loss in 2017. The annual figures already include the balance sheet of Vojvodjanska banka and also its one moth earnings (HUF 73 million), so the y-o-y comparison is distorted. As a result of the consolidation performing loan volumes increased almost four-folds, without the acquisition the portfolio still grew by 17% y-o-y. Total FX-adjusted deposits more than quadrupled. Consequently, the combined operation's net loan-to-deposit ratio dropped to 82% (-23 pps y-o-y).

Despite the loss at the **Montenegrin subsidiary** decreasing substantially, the bank failed to leave behind loss-making operation already seen in 2015 and 2016. In 2017 it posted -HUF 155 million negative result. The significant drop in risk costs (-57% y-o-y) was not enough to off-set the y-o-y 33% decline in operating profit. The annual NIM eroded by 19 bps y-o-y (3.38%), the NII declined by 6% despite performing loan volumes growing by 16% y-o-y. During 2017 the management pushed through a significant portfolio clean-up, and partly as a result of non-performing portfolio sales and write-backs the DPD90+ ratio dropped to 31.3% (-11.1 pps y-o-y).

Consolidated and stand-alone capital adequacy ratio (in accordance with BASEL III)

At the end of December 2017 the consolidated Common Equity Tier1 ratio under IFRS was 12.7%. The decline was explained partially by the consolidation of Splitska banka (-1.4 pps) and Vojvodjanska banka (-0.5 pp). Neither the interim net result was included, nor the accrued dividend amount was deducted from the regulatory capital when calculating the IFRS consolidated capital adequacy ratios. Including those items the CET1 ratio would be 15.3%.

OTP Bank's stand-alone common equity Tier1 ratio was 29.0% by the end of 2017.

Credit rating, shareholder structure

During 2017 there have been several positive developments in the credit rating of OTP Bank: on 24 July 2017 S&P Global improved OTP Bank and OTP Mortgage Bank long term FX and local currency rating into investment grade ('BBB-'), the outlook is stable. Furthermore, on 19 October 2017, Moody's Investors Service upgraded OTP Bank Plc.'s long and short-term local-currency deposit ratings to 'Baa2/Prime-2' from 'Baa3/Prime-3'. At the same time the junior subordinated rating of the bank was raised by one notch to 'Ba3 (hyb)' from 'B1 (hyb)'. Also, the rating agency upgraded the backed long-term local-currency issuer rating of OTP Mortgage Bank Ltd. to 'Baa3' from 'Ba1', with stable outlook. On 22 November Dagong Global gave a 'BBB+' inaugural rating for OTP Bank's long-term liabilities, the outlook was stable.

Regarding the ownership structure of the Bank, by 31 December 2017 the following investors had more than 5% influence (voting rights) in the Company: MOL (the Hungarian Oil and Gas Company, 8.66%), the Rahimkulov family (8.57%), OPUS Securities SA (5.23%) and Groupama Group (5.19%).

POST BALANCE SHEET EVENTS

Hungary

- Effective from 29 January the National Bank of Hungary (NBH) has modified the monetary policy interest rate swap (MIRS) facility terms and conditions. Accordingly, it will announce its monetary policy interest rate swap facility (MIRS) at fixed rate tenders. The allocation among banks will be based upon balance sheet totals.
- On 30 January 2018 the Monetary Council of NBH left interest conditions unchanged and stated that the Council's aim is that the loose monetary conditions have their effect not only at the short, but also at the longer end of the yield curve. For that purpose the NBH will continue mortgage bond purchases and the monetary policy interest rate swap facility as programmes. The Council focuses on the relative position of domestic long-term yields relative to international yields when evaluating the programme.
- According to the notification received from the Government Debt Management Agency, effective from 12 February 2018 the distribution fee rates related to the sale of retail government bonds to households was cut further. As a result, the distribution fee on 6M Government Bonds was reduced from 0.2% to 0.1%, on 1 year Government Bonds from 0.6% to 0.3%, whereas on 2 year Government Bonds, Premium and Bonus Government Securities from 0.8% to 0.4-0.8%, respectively, depending on particular products and maturities.

Russia

- On 25 January 2018 Moody's changed the outlook on Russia's 'Ba1' long-term issuer and senior unsecured debt ratings to positive from stable.
- On 9 February 2018 Central bank of Russia cut the base rate by 25 bps to 7.5%.
- On 23 February 2018 Fitch Ratings affirmed Russia's long term foreign and local currency issuer rating at 'BBB-'with positive outlook.
- On 23 February 2018 S&P Global raised its foreign currency sovereign credit ratings on Russia to 'BBB-'.The outlook is stable.

Ukraine

- On 25 January 2018 the Ukrainian central bank raised its key rate by 150 bps to 16% and said that the USD 17.5 billion International Monetary Fund programme and future cooperation with the Fund remained vital for economic stability.

Romania

- The Romanian central bank lifted its benchmark interest rate by 25 bps to 2% in a move to anchor inflation expectations.
- On 7 February 2018 Romania's central bank delivered a 25 bps hike to its benchmark interest rate to 2.25% seeking to curb rising inflation.

Croatia

- On 12 January 2018 Fitch upgraded Croatia's credit rating to 'BB+' with a stable outlook.

CONSOLIDATED AFTER TAX PROFIT BREAKDOWN BY SUBSIDIARIES (IFRS)[3]

	2016 HUF million	2017 HUF million	Change %
Consolidated after tax profit	**202,452**	**281,339**	**39**
Adjustments (total)	**1,276**	**(2,733)**	**(314)**
Consolidated adjusted after tax profit without the effect of adjustments	**201,176**	**284,072**	**41**
Banks total without one-off items[1]	189,954	265,422	40
OTP CORE (Hungary)[2]	122,194	168,576	38
Corporate Centre (after tax)[3]	(5,868)	194	(103)
OTP Bank Russia[4]	20,535	27,771	35
Touch Bank (Russia)[5]	(5,898)	(7,391)	25
OTP Bank Ukraine[6]	10,202	14,120	38
DSK Bank (Bulgaria)[7]	47,385	47,122	(1)
OBR (Romania)[8]	1,655	3,036	83
OTP banka Srbija (Serbia)[9]	39	(2,904)	
OBH (Croatia)[10]	3,783	17,105	352
OBS (Slovakia)[11]	(2,223)	(2,051)	(8)
CKB (Montenegro)[12]	(1,849)	(155)	(92)
Leasing	3,968	9,836	148
Merkantil Bank + Car, adj. (Hungary)[13]	2,605	8,260	217
Foreign leasing companies (Croatia, Bulgaria, Romania, Serbia)[14]	1,363	1,575	16
Asset Management	6,723	8,677	29
OTP Asset Management (Hungary)	6,658	8,259	24
Foreign Asset Management Companies (Ukraine, Romania, Bulgaria)[15]	65	418	543
Other Hungarian Subsidiaries	1,888	(747)	(140)
Other Foreign Subsidiaries (Slovakia, United Kingdom, Montenegro, Romania, Serbia, Croatia, Belize)[16]	403	295	(27)
Eliminations	(1,760)	590	(134)
Total adjusted after tax profit of HUNGARIAN subsidiaries[17]	125,718	185,132	47
Total adjusted after tax profit of FOREIGN subsidiaries[18]	75,458	98,940	31
Share of foreign profit contribution, %	38%	35%	(7)

[3] Belonging footnotes are in the Supplementary data section of the Report.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Main components of the Statement of profit or loss	2016 HUF million	2017 HUF million	Change %
Consolidated after tax profit	**202,452**	**281,339**	**39**
Adjustments (total)	**1,276**	**(2,733)**	**(314)**
Dividends and net cash transfers (after tax)	412	680	65
Goodwill/investment impairment charges (after tax)	11,552	(6,064	(152)
Special tax on financial institutions (after corporate income tax)	(13,950)	(15,233)	9
Impact of fines imposed by the Hungarian Competition Authority (after tax)	1,922	177	(91)
Effect of acquisitions (after tax)	0	17,708	
Corporate tax impact of switching to IFRS from HAR in Hungary	(5,766)	0	(100)
Revaluation of deferred taxes recognized in the P&L due to the corporate tax rate cut in Hungary	(6,054)	0	(100)
Gain on the sale of Visa Europe shares (after tax)	13,160	0	(100)
Consolidated adjusted after tax profit without the effect of adjustments	**201,176**	**284,072**	**41**
Before tax profit	**244,772**	**321,421**	**31**
Operating profit	**335,900**	**363,159**	**8**
Total income	**736,316**	**804,946**	**9**
Net interest income	**521,949**	**546,654**	**5**
Net fees and commissions	**175,966**	**209,428**	**19**
Other net non-interest income	**38,400**	**48,864**	**27**
Foreign exchange result, net[1]	13,266	21,622	63
Gain/loss on securities, net	5,655	7,068	25
Net other non-interest result[1]	19,478	20,175	4
Operating expenses	**(400,416)**	**(441,788)**	**10**
Personnel expenses	(191,443)	(213,599)	12
Depreciation	(44,428)	(46,482)	5
Other expenses	(164,545)	(181,707)	10
Total risk costs	**(93,218)**	**(45,682)**	**(51)**
Provision for loan losses	(73,223)	(31,058)	(58)
Other provision	(19,995)	(14,624)	(27)
Total one-off items	**2,090**	**3,945**	**89**
Gain on the repurchase of own Upper and Lower Tier2 Capital	0	0	
Result of the treasury share swap at OTP Core	2,090	3,945	89
Corporate taxes	**(43,596)**	**(37,349)**	**(14)**
INDICATORS	2016 (Restated)	2017	%/pps
ROE (from accounting net earnings)	15.4%	18.5%	3.1
ROE (from adjusted net earnings)	15.4%	18.7%	3.4
ROA (from adjusted net earnings)	1.9%	2.4%	0.5
Operating profit margin	3.10%	3.03%	(0.07)
Total income margin	6.79%	6.71%	(0.09)
Net interest margin	4.82%	4.56%	(0.26)
Net fee and commission margin	1.62%	1.75%	0.12
Net other non-interest income margin	0.35%	0.41%	0.05
Cost-to-asset ratio	3.70%	3.68%	(0.01)
Cost/income ratio	54.4%	54.9%	0.5
Risk cost for loan losses-to-average gross loans	1.14%	0.43%	(0.71)
Risk cost for loan losses-to-average FX adjusted gross loans	1.17%	0.42%	(0.76)
Total risk cost-to-asset ratio	0.86%	0.38%	(0.48)
Effective tax rate	17.8%	11.6%	(6.2)
Non-interest income/total income	29%	32%	3
EPS base (HUF) (from unadjusted net earnings)	765	1,074	40
EPS diluted (HUF) (from unadjusted net earnings)	765	1,074	40
EPS base (HUF) (from adjusted net earnings)	761	1,085	43
EPS diluted (HUF) (from adjusted net earnings)	761	1,085	43
Comprehensive Income Statement	2016	2017	%
Consolidated after tax profit	202,452	281,339	39
Fair value adjustment of securities available-for-sale (recognised directly through equity)	11,824	15,677	33
Fair value adjustment of derivative financial instruments designated as cash-flow hedge	0	0	
Fair value adjustment of strategic open FX position hedging net investment in foreign operations	525	155	(70)
Foreign currency translation difference	24,554	(20,535)	(184)
Change of actuarial losses (IAS 19)	61	(241)	(495)
Net comprehensive income	**239,416**	**276,395**	**15**
o/w Net comprehensive income attributable to equity holders	238,775	276,222	16
Net comprehensive income attributable to non-controlling interest	641	173	(73)

Average exchange rate of the HUF	2016 HUF	2017 HUF	Change %
HUF/EUR	311	309	-1
HUF/CHF	286	279	-3
HUF/USD	281	274	-3

[1] In case of the Romanian and Slovakian bank the revaluation result of certain intra-group swaps is presented on a net basis on the net interest income line in the consolidated adjusted P&L structure (in the accounting P&L the impact of these swaps is recognized on 3 different lines: the net interest income, the foreign exchange gains and losses, and the result of derivative financial instruments line, latter is presented within the net other non-interest result line).
this adjustment was retrospectively corrected from 4Q 2016.
This step doesn't affect the accounting P&L, but it triggers changes on the *Foreign exchange result, net* and the *Net other non-interest result* (both being part of the *Other net non-interest income*) in the adjusted P&L – in the same amount, but with opposite sign. Therefore, the change doesn't affect the amount of *Other net non-interest income* line and thus, the after tax results.

ASSET-LIABILITY MANAGEMENT

Similar to previous periods OTP Group maintained a strong and safe liquidity position…

The primary objective of OTP Group in terms of asset-liability management has not changed, that is to ensure that the Group's liquidity is maintained at a safe level.

Refinancing sources of the European Central Bank are still available for OTP (EUR 304 million). As a result of the high level of liquidity reserves, the Group could safely function without considerable fund raising (except for the mortgage bond issuances due to regulatory requirements).

Even with the liquidity absorbing effect of acquisitions (EUR 845 million), total liquidity reserves of OTP Bank remained steadily and substantially above the safety level. As of 31 December 2017 the gross liquidity buffer was around EUR 8.3 billion equivalent. This buffer is significantly higher than the maturing debt within one year and the reserves required to protect against possible liquidity shocks. Due to governmental FX lending measures and FX loan conversion FX liquidity need of the Group has considerably declined. The maturing long term FX-swaps were not refinanced and the ECB refinancing facilities are currently not utilized and the FX liquidity reserves are at safe levels (at EUR 1.08 billion on 31 December 2017).

The volume of issued securities increased by 70% y-o-y, mainly because in order to comply with a new liquidity ratio introduced by the National Bank of Hungary OTP Group sold about HUF 148 billion mortgage bonds to external counterparties in the first half of 2017 (issued by OTP Mortgage Bank). The inflow from this was invested into government bonds and mortgage bonds issued by other banks.

On the yearly basis the Hungarian retail bond portfolio shrank by HUF 30 billion (-82%).

The volume of subordinated debt was practically flat y-o-y.

…and kept its interest-rate risk exposures low.

Interest-rate risk exposure of OTP Group is determined primarily by the positions of OTP Bank Plc. and OTP Mortgage Bank Ltd. Due to the forint liabilities on OTP Bank's balance sheet, which respond to yield changes only to a moderate extent, the Bank has an interest-rate risk exposure resulting from its business operations. The Bank considers the reduction and closing of this exposure as a strategic matter. Consequently, it has been reducing its interest-rate risk exposure through the purchase of fixed-rate government securities in order to offset the negative impact of declining yields on net interest income.

Market Risk Exposure of OTP Group

The consolidated capital requirement of the trading book positions, the counterparty risk and the FX risk exposure represented HUF 45.7 billion in total, primarily due to the capital requirement of the FX risk exposure.

OTP Group is an active participant of the international FX and derivative market. Open FX positions of group members are restricted to individual and global net open position limits (overnight and intraday), and to stop-loss limits. The open positions of the group members outside Hungary except for the Bulgarian DSK Bank – the EUR/BGN exposure of DSK under the current exchange rate regime does not represent real risk – were negligible measured against either the balance sheet total or the regulatory capital. Therefore, the group level FX exposure was concentrated at OTP Bank. Thus the main part of the FX exposure booked at OTP Bank – in line with the previous years' practice – was the strategic open FX position (EUR 310 million) kept to hedge the currency risk of the expected FX-denominated net earnings of the main foreign subsidiaries.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF OTP GROUP

Main components of balance sheet	2016 HUF million (Restated)	2017 HUF million	Change %
TOTAL ASSETS	**11,209,041**	**13,190,228**	**18**
Cash and amount due from banks	1,625,357	1,198,046	(26)
Placements with other banks	363,530	462,180	27
Financial assets at fair value	189,778	344,417	81
Securities available-for-sale	1,527,093	2,174,718	42
Net customer loans	5,736,231	6,987,834	22
Net customer loans (FX adjusted[1])	**5,665,091**	**6,987,834**	**23**
Gross customer loans	6,680,504	7,690,419	15
Gross customer loans (FX adjusted[1])	**6,571,364**	**7,690,419**	**17**
o/w Retail loans	4,332,268	4,864,153	12
Retail mortgage loans (incl. home equity)	2,331,032	2,445,031	5
Retail consumer loans	1,488,640	1,875,136	26
SME loans	512,596	543,986	6
Corporate loans	1,977,952	2,562,164	30
Loans to medium and large corporates	1,904,206	2,362,104	24
Municipal loans	73,746	200,060	171
Car financing loans	214,503	263,943	23
Bills and accrued interest receivables related to loans	46,641	158	(100)
Allowances for loan losses	(944,273)	(702,585)	(26)
Allowances for loan losses (FX adjusted[1])	(906,273)	(702,585)	(22)
Equity investments	9,837	12,269	25
Securities held-to-maturity	1,114,227	1,310,331	18
Premises, equipment and intangible assets, net	355,516	413,389	16
o/w Goodwill, net	104,282	100,976	(3)
Premises, equipment and other intangible assets, net	251,234	312,414	24
Other assets	287,473	287,044	0
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**11,209,041**	**13,190,228**	**18**
Liabilities to credit institutions and governments	543,774	472,068	(13)
Customer deposits	8,540,584	10,233,471	20
Customer deposits (FX adjusted[1])	**8,428,360**	**10,233,471**	**21**
o/w Retail deposits	6,065,374	7,271,548	20
Household deposits	5,075,399	6,079,930	20
SME deposits	989,976	1,191,619	20
Corporate deposits	2,347,342	2,947,248	26
Deposits to medium and large corporates	1,806,008	2,257,993	25
Municipal deposits	541,334	689,255	27
Accrued interest payable related to customer deposits	15,644	14,675	(6)
Issued securities	146,900	250,320	70
o/w Retail bonds	36,921	6,500	(82)
Issued securities without retail bonds	109,978	243,821	122
Other liabilities	479,676	518,286	8
Subordinated bonds and loans[2]	77,458	76,028	(2)
Total shareholders' equity	**1,420,650**	**1,640,055**	**15**
Indicators	2016	2017	pps
Loan/deposit ratio (FX adjusted[1])	78%	75%	(2)
Net loan/(deposit + retail bond) ratio (FX adjusted[1])	66%	68%	2
90+ days past due loan volume	975,952	707,211	(28)
90+ days past due loans/gross customer loans	14.7%	9.2%	(5.5)
Total provisions/90+ days past due loans	96.8%	99.3%	2.6
Consolidated capital adequacy - Basel3	2016 (Restated)	2017	%/pps
Capital adequacy ratio (consolidated, IFRS)	16.0%	14.6%	(1.4)
Tier1 ratio	13.5%	12.7%	(0.9)
Common Equity Tier1 ('CET1') capital ratio	13.5%	12.7%	(0.9)
Regulatory capital (consolidated)	1,079,167	1,228,628	14
o/w Tier1 Capital	911,431	1,062,701	17
o/w Common Equity Tier1 capital	911,431	1,062,701	17
Tier2 Capital	167,736	165,927	(1)
o/w Hybrid Tier2	89,935	89,935	0
Consolidated risk weighted assets (RWA) (Credit&Market&Operational risk)	6,730,467	8,389,920	25
o/w RWA (Credit risk)	5,344,636	6,795,559	27
RWA (Market & Operational risk)	1,385,831	1,594,361	15
Closing exchange rate of the HUF	2016 HUF	2017 HUF	Change %
HUF/EUR	311	310	0
HUF/CHF	289	265	(8)
HUF/USD	294	259	(12)

[1] For the FX adjustment, the closing cross currency rates for the current period were used to calculate the HUF equivalent of loan and deposit volumes in the base periods.
[2] The ICES bonds are considered as Tier2 debt, but accounting-wise they are treated as part of the shareholders' equity.

OTP BANK'S HUNGARIAN CORE BUSINESS

OTP Core Statement of profit or loss:

Main components of the Statement of profit or loss	2016 HUF million	2017 HUF million	Change %
After tax profit without the effect of adjustments	122,194	168,576	38
Corporate income tax	(29,680)	(16,986)	(43)
Pre-tax profit	151,874	185,562	22
Operating profit	143,680	150,833	5
Total income	354,698	365,591	3
Net interest income	235,871	234,304	(1)
Net fees and commissions	100,213	109,128	9
Other net non-interest income	18,614	22,159	19
Operating expenses	(211,018)	(214,758)	2
Total risk costs	6,104	30,784	404
Provisions for possible loan losses	14,036	33,586	139
Other provisions	(7,933)	(2,803)	(65)
Total one-off items	2,090	3,945	89
Gain on the repurchase of own Upper and Lower Tier2 Capital	0	0	0
Revaluation result of the treasury share swap agreement	2,090	3,945	89
Revenues by Business Lines			
RETAIL			
Total income	243,375	238,685	(2)
Net interest income	152,141	139,829	(8)
Net fees and commissions	87,333	95,348	9
Other net non-interest income	3,901	3,509	(10)
CORPORATE			
Total income	40,507	41,177	2
Net interest income	26,558	27,937	5
Net fees and commissions	12,808	12,215	(5)
Other net non-interest income	1,140	1,026	(10)
Treasury ALM			
Total income	66,824	76,295	14
Net interest income	57,172	66,539	16
Net fees and commissions	73	1,566	
Other net non-interest income	9,579	8,191	(14)
Indicators	2016 (Restated)	2017	pps
ROE	9.8%	12.3%	2.5
ROA	1.8%	2.3%	0.5
Operating profit margin	2.1%	2.1%	(0.1)
Total income margin	5.23%	5.02%	(0.22)
Net interest margin	3.48%	3.22%	(0.27)
Net fee and commission margin	1.48%	1.50%	0.02
Net other non-interest income margin	0.27%	0.30%	0.03
Operating costs to total assets ratio	3.1%	2.9%	(0.2)
Cost/income ratio	59.5%	58.7%	(0.7)
Cost of risk/average gross loans[2]	(0.57%)	(1.23%)	(0.66)
Cost of risk/average gross loans (FX adjusted)[2]	(0.57%)	(1.23%)	(0.66)
Effective tax rate	19.5%	9.2%	(10.4)

[1] In case of the Revenue by business lines table a new estimate was implemented from 3Q 2017, therefore these numbers' comparability with previous periods is limited.

[2] Negative *Cost of risk/average gross loan volumes* indicators imply provision release.

Main components of OTP Core's Statement of financial position:

Main components of balance sheet closing balances	2016 HUF million (Restated)	2017 HUF million	Change %
Total Assets	7,148,673	7,704,135	8
Net customer loans	2,398,694	2,634,920	10
Net customer loans (FX adjusted)	**2,394,163**	**2,634,920**	**10**
Gross customer loans	2,610,277	2,793,871	7
Gross customer loans (FX adjusted)	**2,603,380**	**2,793,871**	**7**
Retail loans	1,747,978	1,823,116	4
Retail mortgage loans (incl. home equity)	1,274,813	1,275,655	0
Retail consumer loans	315,348	372,006	18
SME loans	157,818	175,455	11
Corporate loans	855,402	970,755	13
Loans to medium and large corporates	831,988	934,952	12
Municipal loans	23,413	35,803	53
Provisions	(211,583)	(158,951)	(25)
Provisions (FX adjusted)	**(209,217)**	**(158,951)**	**(24)**
Deposits from customers + retail bonds	4,942,606	5,388,080	9
Deposits from customers + retail bonds (FX adjusted)	**4,913,226**	**5,388,080**	**10**
Retail deposits + retail bonds	3,183,832	3,477,054	9
Household deposits + retail bonds	2,619,361	2,820,700	8
o/w: Retail bonds	36,921	6,500	(82)
SME deposits	564,471	656,354	16
Corporate deposits	1,729,393	1,911,026	11
Deposits to medium and large corporates	1,219,920	1,291,956	6
Municipal deposits	509,474	619,071	22
Liabilities to credit institutions	329,442	285,539	(13)
Issued securities without retail bonds	192,097	288,799	50
Total shareholders' equity	1,312,464	1,430,256	9
Loan Quality	2016	2017	%/pps
90+ days past due loan volume (in HUF million)	255,841	179,618	(30)
90+ days past due loans/gross customer loans	9.8%	6.4%	(3.4)
Total provisions/90+ days past due loans	82.7%	88.5%	5.8
Market Share[1]	2016	2017	pps
Loans	20.2%	20.6%	0.4
Deposits	26.5%	27.6%	1.1
Total Assets	24.5%	25.7%	1.2
Performance Indicators	2016 (Restated)	2017	pps
Net loans to (deposits + retail bonds) (FX adjusted)	49%	49%	0
Leverage (closing Shareholder's Equity/Total Assets)	18.4%	18.6%	0.2
Leverage (closing Total Assets/Shareholder's Equity)	5.4x	5.4x	(0.1x)
Capital adequacy ratio (OTP Bank, non-consolidated, Basel3, HAS until 4Q 2016, IFRS from 1Q 2017)	27.7%	31.4%	3.7
Common Equity Tier1 ratio (OTP Bank, non-consolidated, Basel3, HAS until 4Q 2016, IFRS from 1Q 2017)	24.8%	29.0%	4.2

[1] Market share figures changed retroactively due to data revision.

- ***2017 adjusted profit after tax of OTP Core reached HUF 168.6 billion (+38% y-o-y), supported also by the lower effective tax rate; the before tax profit advanced by 22% y-o-y***
- ***The operating profit increased by 5% y-o-y, mainly because of the 9% higher net fee income. Net interest income remained stable (-0.7% y-o-y) despite the 27 bps margin erosion. Operating costs went up by 2%***
- ***In 2017 y-o-y increasing provision releases were booked. The DPD90+ ratio kept further decreasing***
- ***Performing loan volume growth accelerated to 11% in 2017, after a 5% increase in 2016 as a whole (without the AXA portfolio take-over). Within that, consumer and corporate loan growth was outstanding (+25% and +20%, respectively)***
- ***The annual new mortgage disbursements grew by 30% y-o-y; the performing mortgage loan growth already shifted into positive territory (+2% y-o-y)***

Note: the scope of companies comprising OTP Core was extended by the following companies from 2017: OTP Card Factory Ltd, OTP Real Estate Lease Ltd, OTP Facility Management Ltd. and MONICOMP Ltd. (earlier these entities' results were presented within Other Hungarian Subsidiaries).

The aggregated gross loan portfolio of those companies that were included into OTP Core from 2017 amounted to HUF 21.3 billion, while the performing loan volumes represented HUF 17.7 billion at the end of 2017 (of which HUF 15.9 billion mortgages, HUF 0.2 billion consumer loans, HUF 1.4 billion micro and small enterprise exposures and HUF 0.2 billion corporate loans). The aggregated total after tax profit of these entities amounted to HUF 1.2 billion in 2017.

P&L developments

Without the effect of adjustment items[4] **OTP Core** posted a profit after tax of HUF 168.6 billion in 2017, implying a 38% y-o-y increase.

The annual effective corporate income tax rate was 9.2% versus 19.5% for the base period. Effective from 1 January 2017 the Hungarian corporate tax rate was reduced uniformly to 9%. Since the switch from Hungarian Accounting Standards into IFRS financials became effective from January 2017 in Hungary, from 2017 the corporate income tax line of OTP Core wasn't distorted by the tax shield effect[5] related to the HUF exchange rate movements.

The profit before tax improved by 22% y-o-y supported by both higher operating result and lower total risk costs. On quarterly basis the profit before tax moderated by 34% q-o-q because cost growth exceeded revenue growth, and q-o-q lower provision releases were accounted for.

The total income without one-off items went up by 3% y-o-y. It was positive that the net interest income basically stabilized y-o-y (-0.7%). Gross interest revenues benefited from dynamic loan volume growth: apart from the strong organic growth, the portfolio was also boosted by the take-over of the AXA volumes in November 2016. Furthermore, the placement of additional liquidity generated by the deposit inflow added to the interest revenues. It was also positive for revenues that the liquidity reserves have been gradually shifting toward longer duration and higher yielding Hungarian government bonds, and this trend continued throughout 2017. The increasing liquid assets and thus, total asset base in the wake of expanding deposits, however, diluted the net interest margin. The net interest margin was also negatively affected by the continuing erosion of short-term reference rates (used as benchmark rates for variable rate loans). The net interest margin declined by 27 bps compared to the previous year.

The net fee and commission income increased by 9% y-o-y. The improvement was due to stronger card-related fee revenues induced by growing transactional turnover. However, the deposit and transaction-related, as well as loan-related and securities fee income developed nicely, too. According to the announcement made by the Hungarian Government Debt Management Agency the distribution fees on certain household targeted government bonds were reduced from 17 July 2017.

The strengthening of the business activity is illustrated by the agreement signed on 29 June 2017 with the Hungarian Development Bank under which OTP Bank, as the leader of a consortium, joined the network of HDB's selling points through which OTP distributes EU loans and other loan products combined with non-refundable funds. As part of HDB's selling points, these products are available in 163 OTP branches. By the end of 2017 applications in the amount of almost HUF 7 billion were registered.

The other net non-interest income (without one-offs) grew by 19% or HUF 3.5 billion y-o-y, driven by several larger items. Interest revenues realized on trading securities explained an increase of HUF 1.8 billion, whereas the other income (not eliminated at OTP Core level) of companies that were included into OTP Core from the beginning of 2017 added HUF 1.0 billion.

The total amount of one-off revenue items comprised HUF 3.9 billion in 2017, mostly related to a dividend income realized in 2Q on the treasury share swap agreement.

2017 operating expenses increased moderately by 2% y-o-y as a result of higher personnel expenses. The inclusion of the above-mentioned four Hungarian entities into OTP Core from 2017 did not have a material impact on the dynamics of operating expenses due to eliminations, however it did influence the structure of operating costs (as a result, personnel costs grew, while administrative expenses declined). The total number of employees at OTP Core increased by 757 people y-o-y, of which the four new entities added 581 people.

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[4] Adjustments emerged in the presented periods: special tax on financial institutions, dividends and net cash transfers, goodwill/investment impairment charges, impact of fines imposed by the Hungarian Competition Authority, the corporate tax impact of switching to IFRS from HAR in Hungary, the revaluation of deferred taxes recognized in the P&L due to the corporate tax rate cut in Hungary, and the gain on the sale of Visa Europe shares.

[5] In 2016 this caused HUF 2.0 billion additional tax payment. The reason for this was that in the base period the closing rate of HUF typically depreciated against the functional currencies of the subsidiary investments. Therefore a revaluation gain was realized under Hungarian Accounting Standards when translating the value of these subsidiary investments into HUF, increasing the corporate tax base. So, the corporate income tax both under HAS and IFRS was higher in the base period (ceteris paribus).

The y-o-y change of cumulated personnel expenses was shaped by the following factors: at OTP Bank there was an average base salary increase of 4% in April 2016, however its effect was counterbalanced by the 5 pps cut in social and health care contributions effective from 1 January 2017. The take-over of the Hungarian operation of AXA in November 2016 had an impact mainly on personnel costs. Furthermore, in April 2017 there was a base salary increase for employees working in the sales network, whereas the HQ employees received a base salary increase from July 2017.

Starting from January 2018 the social and health care contributions to be paid by employers were reduced by another 2.5 pps.

Operational costs were partly influenced by the increasing advisory and marketing costs.

On the total risk costs line a release of HUF 30.8 billion was recognized in 2017.

The DPD90+ volumes adjusted for FX rate movements and sales and write offs declined by HUF 14 billion in 2017 (whereas the decline was HUF 11 billion in 2015 and HUF 5 billion in 2016, respectively, latter adjusted for the technical effect of the AXA portfolio take-over). HUF 58 billion non-performing exposures were sold or written off during the last twelve months. The DPD90+ ratio moderated by 3.4 pps y-o-y to 6.4%.

Balance sheet trends

Loan volume growth at OTP Core further accelerated in 2017, following the turnaround reached in 2016. The FX-adjusted gross loan portfolio increased by 7% y-o-y. However, due to the sales and write-offs of non-performing loans, the performing (DPD0-90) loan volume developments are more illustrative: performing loans advanced by 11% y-o-y, which is stronger than the full-year 2016 dynamics (+5% without the take-over of the AXA portfolio).

The organic loan portfolio expansion was fuelled mainly by the corporate sector: the performing large corporate book advanced by 18% y-o-y, whereas the SME exposures grew by 13% over the same period. Local government exposures – from a low base though – advanced by 53% y-o-y.

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 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.

On the retail side, the stock of mortgage loans has finally switched into growth mode in the second half of 2017; performing mortgage loans advanced by 2% y-o-y. The full-year amount of mortgage loan disbursements showed a 30% increase y-o-y. OTP Bank’s market share in new mortgage loan contractual amounts reached 27.7% in 2017.

On 19 May 2017 the NBH published the „customer-friendly housing loan” criteria for the newly issued housing loans and banks could apply for the approval from 1st June 2017. On 1 August 2017 OTP Mortgage Bank received the approval of NBH to sell its qualified customer friendly mortgage loan product. The Bank started to offer its fixed 10 year certified customer-friendly product from the second half of August, whereas the fixed 5 and 20 years fixed certified customer-friendly products became available from December.

OTP Bank helps Hungarian families realize their housing aims through its active participation in the Housing Subsidy Scheme for Families (CSOK), too.In 2017 10,800 applications for the CSOK subsidy were registered at OTP Bank with a value of over HUF 39 billion in 2017. Applicants also combined CSOK subsidy with subsidized or market-based loan applications in the amount of HUF 63 billion in 2017. State subsidized housing loan applications in 2017 represented HUF 52.6 billion, up by 13% y-o-y due to the additional demand generated by the CSOK.

Performing consumer loan volumes advanced by 25% y-o-y (FX adjusted). The increase was supported by few big ticket Lombard loans disbursed in 2Q 2017 in the amount of HUF 29 billion; without these the y-o-y growth would have been 14%.

Performing cash loan volume growth was outstanding: the yearly increase accelerated to 34%. OTP’s market share in the cash loan segment remained strong in terms of the outstanding stock (34.1% at the end of December). OTP Bank was the first Bank in Hungary which fully digitalized the whole process of cash loan sales.

After gradual erosion in previous periods, purchase loan and credit card loan volumes stabilized in 3Q, and 4Q already saw expanding volumes in both segments. Thus, performing credit card loans stabilized even in y-o-y comparison, and purchase loans grew by 4%.

FX-adjusted deposit volumes (including retail bonds) increased by 10% y-o-y. The yearly growth was equally supported by retail and corporate expansion. The overall volume of retail savings kept at OTP Bank went on increasing dynamically in 2017, fuelled by the growth of the securities portfolio. The gradual shift of household savings towards securities is in line with general market trends.

OTP FUND MANAGEMENT (HUNGARY)

Changes in assets under management and financial performance of OTP Fund Management:

Main components of P&L account	2016 HUF million	2017 HUF million	Change %
After tax profit w/o dividends and net cash transfer	6,658	8,259	24
Income tax	(1,379)	(811)	(41)
Profit before income tax	8,038	9,070	13
Operating profit	7,816	9,089	16
Total income	10,232	11,763	15
Net interest income	0	0	
Net fees and commissions	10,217	11,765	15
Other net non-interest income	15	(2)	
Operating expenses	(2,416)	(2,674)	11
Other provisions	222	(20)	(109)
Main components of balance sheet closing balances	2016	2017	%
Total assets	17,780	20,587	16
Total shareholders' equity	14,995	17,958	20
Asset under management	2016 HUF billion	2017 HUF billion	%
Assets under management, total (w/o duplicates)	**1,530**	**1,519**	**(1)**
Retail investment funds (closing, w/o duplicates)	1,000	942	(6)
Volume of managed assets (closing, w/o duplicates)	530	576	9
Volume of investment funds (with duplicates)	1,153	1,180	2
money market	295	189	(36)
bond	412	295	(28)
mixed	25	56	122
security	123	158	29
guaranteed	61	49	(20)
other	237	434	83

OTP Fund Management realized its highest ever after tax profit of HUF 8.3 billion in 2017 underpinning a 24% y-o-y increase. The operating profit grew by 16% y-o-y, which was the result of the dynamically increasing net fees and commissions income (+15% y-o-y); at the same time operating expenses increased more moderately (+11% y-o-y). The surging fees and commissions income was mainly reasoned by the higher performance fees.

Considering the whole market, in 2017 the managed assets of BAMOSZ members increased y-o-y. Equity and mixed funds as well as total return funds and real estate funds experienced increasing capital inflow, while money market funds, bond funds and protected funds suffered an outflow.

Assets under management at the Company expanded by 2% y-o-y. The structural shift within the different types of investment funds influenced the portfolio of OTP Fund Management similar to the whole market in 2017. The volume of mixed funds, equity funds and other asset classes grew, while money market fund, debt funds and fixed income funds shrunk.

The market share of OTP Fund Management (without duplications) was 23.7% at the end of 2017, up by 0.4 pp y-o-y. The Company retained its market leading position.

MERKANTIL GROUP (HUNGARY)

Performance of Merkantil Bank and Car:

Main components of P&L account	2016 HUF million	2017 HUF million	Change %
After tax profit w/o dividends and net cash transfer	2,605	8,260	217
Income tax	(43)	(357)	
Profit before income tax	2,648	8,618	225
Operating profit	7,370	6,229	(15)
Total income	13,427	12,423	(7)
Net interest income	16,837	12,477	(26)
Net fees and commissions	(991)	(366)	(63)
Other net non-interest income	(2,419)	311	
Operating expenses	(6,057)	(6,194)	2
Total provisions	(4,722)	2,389	
Provision for possible loan losses	(3,374)	2,049	
Other provision	(1,348)	340	
Main components of balance sheet closing balances	2016	2017	%
Total assets	349,891	369,180	6
Gross customer loans	286,296	292,925	2
Gross customer loans (FX-adjusted)	285,807	292,925	2
Retail loans	25,483	28,826	13
Corporate loans	87,176	89,445	3
Car financing loans	173,148	174,654	1
Allowances for possible loan losses	(37,051)	(21,000)	(43)
Allowances for possible loan losses (FX-adjusted)	(36,995)	(21,000)	(43)
Deposits from customers	34,554	20,799	(40)
Deposits from customer (FX-adjusted)	34,554	20,799	(40)
Retail deposits	28,494	19,250	(32)
Corporate deposits	6,060	1,549	(74)
Liabilities to credit institutions	286,401	303,371	6
Issued securities	3	0	(100)
Total shareholders' equity	24,530	30,268	23
Loan Quality	2016	2017	%/pps
90+ days past due loan volume (in HUF million)	32,356	16,874	(48)
90+ days past due loans/gross customer loans	11.3%	5.8%	(5.5)
Cost of risk/average gross loans	1.21%	(0.71%)	(1.92)
Cost of risk/average (FX-adjusted) gross loans	1.22%	(0.71%)	(1.92)
Total provisions/90+ days past due loans	114.5%	124.5%	9.9
Performance Indicators	2016	2017	pps
ROA	0.8%	2.3%	1.6
ROE	11.5%	29.4%	17.9
Total income margin	3.95%	3.49%	(0.47)
Net interest margin	4.95%	3.50%	(1.45)
Cost/income ratio	45.1%	49.9%	4.7

The **Merkantil Bank and Car** posted a record high aggregated adjusted after tax profit of HUF 8.3 billion in 2017, exceeding more than three times the result for the base period. The strong result was mainly attributable to the positive development of loan-related risk costs: in 2017 a provision release of altogether HUF 2.4 billion was booked.

Total income grew by 7% y-o-y. The structure of revenues was influenced by two items with a rather technical nature. On one hand, due to the shift to IFRS from 2017 the negative revaluation result related to intragroup securities transactions was reclassified to the net interest income line from the other net non-interest income line, resulting in a y-o-y HUF 3.4 billion NII decrease in 2017 (simultaneously other net non-interest income increased in the same amount). On the other hand, also due to the switch to IFRS from 2017 certain items – previously treated as fee expenses – have been reclassified into NII starting from 1Q 2017. This had a negative effect of HUF 1.2 billion on NII in 2017. As a result, the annual net interest income decreased by HUF 4.4 billion (-26% y-o-y).

Annual operating expenses grew by 2% y-o-y, fuelled mainly by higher personnel expenses and other general costs.

In 2017 DPD90+ volumes (adjusted for FX rate changes and sold and written off volumes) decreased by HUF 1.1 billion against the increase of HUF 5.1 billion in 2016. The ratio of DPD90+ loans decreased by 5.5 pps y-o-y to 5.8%, while in 2017 HUF 14.2 billion problem loans were sold or written off.

The FX-adjusted performing loan portfolio expanded by 9% on a yearly basis. The volume of performing SME, corporate and car financing exposures all increased on a yearly basis (+13%, +3% and 11%, respectively). Annual total new loan origination grew by 22% y-o-y, within that the volume of newly disbursed car loans surged by 29% y-o-y. Merkantil retained its market leading position both in terms of new loan disbursements and volumes.

IFRS REPORTS OF THE MAIN FOREIGN SUBSIDIARIES OF OTP BANK

DSK GROUP (BULGARIA)

Performance of DSK Group:

Main components of P&L account	2016 HUF million	2017 HUF million	Change %
After tax profit without the effect of adjustments	47,385	47,122	(1)
Income tax	(4,997)	(4,920)	(2)
Profit before income tax	52,381	52,042	(1)
Operating profit	70,113	61,461	(12)
Total income	112,503	108,290	(4)
Net interest income	84,023	72,257	(14)
Net fees and commissions	26,034	27,714	6
Other net non-interest income	2,445	8,319	240
Operating expenses	(42,391)	(46,830)	10
Total provisions	(17,731)	(9,419)	(47)
Provision for possible loan losses	(12,980)	(3,571)	(72)
Other provision	(4,751)	(5,848)	23
Main components of balance sheet closing balances	**2016**	**2017**	**%**
Total assets	1,852,901	1,925,740	4
Gross customer loans	1,151,210	1,184,871	3
Gross customer loans (FX-adjusted)	1,147,870	1,184,871	3
Retail loans	822,276	827,328	1
Corporate loans	325,594	357,543	10
Allowances for possible loan losses	(142,386)	(109,137)	(23)
Allowances for possible loan losses (FX-adjusted)	(141,931)	(109,137)	(23)
Deposits from customers	1,547,669	1,626,924	5
Deposits from customer (FX-adjusted)	1,534,912	1,626,924	6
Retail deposits	1,319,975	1,453,267	10
Corporate deposits	214,937	173,657	(19)
Liabilities to credit institutions	21,782	4,802	(78)
Total shareholders' equity	247,267	250,296	1
Loan Quality	**2016**	**2017**	**%/pps**
90+ days past due loan volume (in HUF million)	131,889	93,936	(29)
90+ days past due loans/gross customer loans	11.5%	7.9%	(3.5)
Cost of risk/average gross loans	1.11%	0.31%	(0.80)
Cost of risk/average (FX-adjusted) gross loans	1.12%	0.31%	(0.81)
Total provisions/90+ days past due loans	108.0%	116.2%	8.2
Performance Indicators	**2016**	**2017**	**pps**
ROA	2.6%	2.5%	(0.1)
ROE	19.8%	20.0%	0.2
Total income margin	6.16%	5.77%	(0.38)
Net interest margin	4.60%	3.85%	(0.75)
Cost/income ratio	37.7%	43.2%	5.6
Net loans to deposits (FX-adjusted)	66%	66%	1
FX rates	**2016 HUF**	**2017 HUF**	**%**
HUF/BGN (closing)	159.0	158.6	0
HUF/BGN (average)	159.3	158.1	(1)

- ***2017 ROE stood at 20.0%***
- ***HUF 47.1 billion profit after tax for the year, practically flat y-o-y, as a result of moderating operating profit (-12%) and almost halving risk cost***
- ***Stronger business activity: performing loan portfolio grew by 7% y-o-y supported by further strengthening corporate disbursements and mortgage loan sales***

DSK Group posted an after tax profit of HUF 47.1 billion in 2017, which translates into a 20.0% return on equity. On the yearly basis the profit was practically flat due to the 12% weaker operating profit and the 47% lower total provisions.

The 12% y-o-y decrease in operating profit to a great extent reflected the 14% y-o-y erosion in net interest income. The 2017 net interest margin shrank by 75 bps to 3.85. The y-o-y shrinking NIM is reasoned by the continuous repricing of assets amid the decreasing yield environment, also lower interest income was realized on household loans due to refinancing. Furthermore, the higher average total assets stemming from the growing excess liquidity of the bank contributed to the NIM contraction, and also the fact that items related to the fair value adjustment of derivative instruments, that were previously accounted in the other net non-interest income line were presented within the NII since the beginning of 2017 (this explains about HUF 2 billion from the yearly growth of other income and the yearly decline of interest income). In total, however, in 2017 NIM shrank less than in 2016.

The net fee and commission income improved by 6% y-o-y due to the favourable disbursement dynamics, pricing changes and growth of transactions-related fee revenues.

Other net non-interest income increased by HUF 5.9 billion y-o-y. This was reasoned mostly by the revaluation gains on derivative instruments and securities portfolio, the above mentioned +HUF 2 billion effect related to the FVA of derivative instruments (together +HUF 3.7 billion) and higher treasury income (+HUF 0.8 billion). Simultaneously, interest claims related to off-balance sheet items of the Bulgarian factoring company have been revised, resulting in a HUF 1.1 billion other non-interest revenue booked in the Bulgarian P&L in 2017.

The operating expenses increased by 10% y-o-y, the key reasons were the higher personnel costs, IT expenses, charges paid to supervisory authorities and advisory costs related to the business development project in the retail area. Cost-to-income ratio increased by 5.6 pps to 43.2% y-o-y.

Total risk cost in 2017 declined by 47% on the yearly basis, within that provisions for possible loan losses decreased by 72%, while other risk cost went up by 23%. Risk cost rate in 2017 shrank by 80 bps to 31 bps y-o-y.

Favourable credit quality trends have remained intact. The FX-adjusted DPD90+ volumes excluding the impact of loan sales and write-offs increased by HUF 1.4 billion y-o-y.

The DPD90+ ratio decreased by 3.5 pps y-o-y to 7.9%. The main reason for the improvement of the ratio is, that in 2017 around HUF 20 billion non-performing portfolio was sold/written-off, half of it came from the mortgage segment.

The FX-adjusted growth of performing loans reached 7% y-o-y, supported by strengthening disbursement activity. Mortgage loan disbursement further strengthened, it went up by 50% y-o-y. Performing mortgage loan volumes grew by 7% y-o-y on an FX-adjusted basis. The performing consumer loan portfolio went up by 2% y-o-y on an FX-adjusted basis.

Corporate and SME loan disbursements surged by 115% y-o-y in 2017. The performing corporate loan portfolio grew by 13% y-o-y, while the SME book showed similar growth dynamics.

The FX-adjusted deposit base expanded by 6% y-o-y. Retail deposits kept on increasing (+10% y-o-y). The volatility of corporate deposits throughout 2017 was related to a large corporate client's placement and withdrawals, on the whole the corporate deposit portfolio shrank by 19% y-o-y. Due to the favourable balance sheet movements, the net loan-to-deposit ratio increased to 66% (+1 pps y-o-y).

The capital adequacy ratio of DSK Bank calculated in accordance with local regulation stood at 17.2% at the end of 2017.

OTP BANK RUSSIA

Performance of OTP Bank Russia:

Main components of P&L account	2016 HUF million	2017 HUF million	Change %
After tax profit w/o dividends and net cash transfer	20,535	27,771	35
Income tax	(6,480)	(7,514)	16
Profit before income tax	27,015	35,285	31
Operating profit	61,866	72,015	16
Total income	106,155	125,290	18
Net interest income	91,816	101,326	10
Net fees and commissions	14,098	22,975	63
Other net non-interest income	240	989	312
Operating expenses	(44,289)	(53,276)	20
Total provisions	(34,851)	(36,730)	5
Provision for possible loan losses	(33,988)	(35,880)	6
Other provision	(863)	(850)	(2)
Main components of balance sheet closing balances	**2016**	**2017**	**%**
Total assets	622,666	638,031	2
Gross customer loans	490,086	531,280	8
Gross customer loans (FX-adjusted)	459,665	531,280	16

Retail loans	422,355	475,007	12
Corporate loans	36,215	56,168	55
Car financing loans	1,095	105	(90)
Gross DPD0-90 customer loans (FX-adjusted)	366,982	447,538	22
Retail loans	335,128	395,997	18
Allowances for possible loan losses	(116,458)	(112,158)	(4)
Allowances for possible loan losses (FX-adjusted)	(109,071)	(112,158)	3
Deposits from customers	345,241	353,306	2
Deposits from customer (FX-adjusted)	323,025	353,306	9
Retail deposits	262,161	284,714	9
Corporate deposits	60,863	68,592	13
Liabilities to credit institutions	91,641	100,404	10
Issued securities	1,038	353	(66)
Subordinated debt	24,778	22,780	(8)
Total shareholders' equity	125,190	135,213	8
Loan Quality	**2016**	**2017**	**%/pps**
90+ days past due loan volume (in HUF million)	99,024	83,742	(15)
90+ days past due loans/gross customer loans	20.2%	15.8%	(4.4)
Cost of risk/average gross loans	8.18%	7.35%	(0.83)
Cost of risk/average (FX-adjusted) gross loans	8.40%	7.38%	(1.01)
Total provisions/90+ days past due loans	117.6%	133.9%	16.3
Performance Indicators	**2016**	**2017**	**pps**
ROA	4.0%	4.6%	0.7
ROE	20.2%	21.0%	0.8
Total income margin	20.59%	20.91%	0.31
Net interest margin	17.81%	16.91%	(0.90)
Cost/income ratio	41.7%	42.5%	0.8
Net loans to deposits (FX-adjusted)	109%	119%	10
FX rates	**2016 HUF**	**2017 HUF**	**%**
HUF/RUB (closing)	4.8	4.5	(6)
HUF/RUB (average)	4.2	4.7	11

- ***HUF 27.8 billion after tax profit in 2017 (+35% y-o-y) marked an ROE of 21% due to improving operating performance***
- ***Net interest income declined by only 1%y-o-y in RUB terms, with eroding NIM and growing performing loan volumes***
- ***In 2017 loan portfolio quality deterioration moderated, risk cost rate declined to 7.35%***
- ***Performing loan volumes grew by 22% y-o-y***

The HUF denominated financial figures of OTP Bank Russia are distorted by the HUF/RUB moves: the 2017 closing rate showed y-o-y 6% depreciation of RUB against HUF; whereas the yearly average rate appreciated by 11% y-o-y. Therefore, local currency P&L and balance sheet dynamics can be materially different from those in HUF terms.

In 2017 **OTP Bank Russia's** net profit almost reached HUF 27.8 billion underpinning a 35% yearly growth (+22% in RUB terms).

As for the rouble denominated earnings dynamics, operating profit increased by 4% owing to the 6% y-o-y growth of total income, while operating expenses were by 8% higher. Despite narrowing net interest margin net interest income decreased merely 1% on yearly basis in RUB terms. NIM eroded by 1 pp to 16.9%, reasoned partly by the fact that from the beginning of 2017 discounts paid to retail agents related to product sale and certain agent bonuses previously treated as fee expense are now capitalised and treated as part of the amortised cost of the loans, thus these expenses will amortise through interest payment on loans during their lifetime. In 2017 this had around HUF 3 billion negative effect on net interest income.

In 2017 net fee and commission income grew in RUB terms by 47% y-o-y due to insurance fee income on cash loans with insurance policies and other products growing considerably, while commission income generated by credit cards declined due to the shrinkage of the average outstanding portfolio. Furthermore, the above mentioned item affecting fee expenses also contributed to the y-o-y growth of this line.

In 2017 operating expenses grew y-o-y by 8% in RUB terms, within that both personnel and material expenses increased by 10% in RUB terms, while depreciation shrank by 4%. Compared to end-2016 the number of branches have not changed by the end of 2017 (134), while the number of employees (without agents) increased by 4% y-o-y to 4,956.

In 2017 the FX-adjusted increase in DPD90+ loans (adjusted for loan sales and write-offs) amounted to HUF 32.7 billion versus HUF 47.5 billion growth seen in the preceding year (-31% y-o-y The DPD90+ ratio declined by 4.4 pps to 15.8% y-o-y. The improvement was supported by the fact, that in the last 12 months altogether RUB 44.4 billion non-performing loans were sold or written-off.

Risk cost moderated by 6% y-o-y. The risk cost rate in 2017 decreased by 0.8 pp to 7.35% y-o-y.

In 2017 the FX-adjusted performing (DPD0-90) loan portfolio expanded by 22% y-o-y. POS lending strengthened: the 2017 disbursements were higher by 14% y-o-y, so the FX-adjusted performing POS loan portfolio surged by 21% y-o-y. With regards to the credit card segment, the portfolio erosion that has been in place since 3Q 2014 stopped in 3Q 2017 and the portfolio grew marginally in 4Q, still the y-o-y the erosion was 3%. Cash loan disbursements surged by 61% y-o-y in 2017; the FX-adjusted volume of performing cash loans grew by 41% y-o-y. FX-adjusted performing corporate loan volumes kept on growing dynamically (+62% y-o-y), due to the favourable development of large corporate loans, working capital financing and commercial factoring.

FX-adjusted total deposits increased by 9% y-o-y; within that both retail and corporate segments performed well. Retail deposits increased by 9% y-o-y, while the corporate deposit base expanded by 13%. FX-adjusted net loan-to-deposit ratio stood at 119% at the end of 2017 (+10 pps y-o-y).

The capital adequacy ratio of the bank calculated in line with local regulation stood at 15.9% at the end of December (-0.2 pp y-o-y).

TOUCH BANK (RUSSIA)

Performance of Touch Bank:

Main components of P&L account	2016 HUF million	2017 HUF million	Change %
After tax profit w/o dividends and net cash transfer	(5,898)	(7,391)	25
Income tax	1,468	1,816	24
Profit before income tax	(7,366)	(9,208)	25
Operating profit	(7,328)	(7,519)	3
Total income	(122)	1,958	
Net interest income	209	1,767	746
Net fees and commissions	(349)	160	(146)
Other net non-interest income	17	31	79
Operating expenses	(7,205)	(9,477)	32
Total provisions	(38)	(1,689)	
Provision for possible loan losses	(33)	(1,681)	
Other provision	(5)	(8)	59
Main components of balance sheet closing balances	2016	2017	%
Total assets	26,141	33,693	29
Gross customer loans	1,609	12,812	696
Gross customer loans (FX-adjusted)	1,511	12,812	748
Retail loans	1,511	12,812	748
Corporate loans	0	0	
Allowances for possible loan losses	(36)	(1,657)	
Allowances for possible loan losses (FX-adjusted)	(34)	(1,657)	
Deposits from customers	20,455	26,352	29
Deposits from customer (FX-adjusted)	19,206	26,352	37
Retail deposits	19,206	26,352	37
Corporate deposits	0	0	
Liabilities to credit institutions	0	0	
Subordinated debt	0	0	
Total shareholders' equity	5,585	7,142	28
Loan Quality	2016	2017	%/pps
90+ days past due loan volume (in HUF million)	5	1,283	
90+ days past due loans/gross customer loans	0.3%	10.0%	9.7
Cost of risk/average gross loans	8.05%	18.70%	
Cost of risk/average (FX-adjusted) gross loans	8.10%	18.78%	
Total provisions/90+ days past due loans		129.1%	
Performance Indicators	2016	2017	pps
Total income margin	(0.79%)	7.02%	7.80
Net interest margin	1.34%	6.33%	4.99
Net loans to deposits (FX-adjusted)	8%	42%	35
FX rates	2016 HUF	2017 HUF	%
HUF/RUB (closing)	4.8	4.5	(6)
HUF/RUB (average)	4.2	4.7	11

- ***HUF 7.4 billion loss in 2017***
- ***Due to the stringent risk management loan portfolio growth fell short of expectations; closing volume of gross loans was HUF 12.8 billion***
- ***Worsening loan portfolio quality, DPD90+ rate grew to 10%***

Touch Bank is part of OTP Bank Russia from legal point of view, and it is operating under the same banking license, but as a separate digital banking business line. In order to provide transparent information Touch Bank is presented as a separate virtual entity.

Touch Bank remained loss making for the third year of its existence and realised HUF 7.4 billion loss in 2017 (+25% y-o-y in HUF, +13% in RUB terms).

In 2017 total income reached HUF 2 billion due to the higher net interest income (HUF 1.8 billion) resulting from the significant, nevertheless weaker than expected yearly growth of loan volumes. Net fee and commission income turned positive on the yearly basis and amounted to HUF 160 million.

Operating expenses amounted to HUF 9.5 billion in 2017 growing by 19% in RUB terms mostly due to marketing expenses increasing y-o-y; personnel expenses also increased by 6% while depreciation was also higher by 21%.

In spite of the outstanding value proposition the pace of potentially profit generating customers' acquisition still falls short of the management's expectations. Number of activated cards increased by 116 y-o-y in 2017 and almost reached 134 thousand. Gross loans grew further (+748% y-o-y on an FX-adjusted basis) close to HUF 13 billion, however, the pace of accumulation moderated in 2H due to more stringent lending standards introduced in 2Q 2017.

The loan portfolio quality deteriorated, the DPD90+ ratio grew to 10.0%.

Total deposits grew by 37% (FX-adjsuted), and reached RUB 5.9 billion at the end of 2017.

OTP BANK UKRAINE

Performance of OTP Bank Ukraine:

Main components of P&L account	2016 HUF million	2017 HUF million	Change %
After tax profit w/o dividends and net cash transfer	10,202	14,120	38
Income tax	(1,477)	(2,954)	100
Profit before income tax	11,679	17,074	46
Operating profit	22,217	18,876	(15)
Total income	37,304	34,595	(7)
Net interest income	26,478	23,060	(13)
Net fees and commissions	8,746	9,716	11
Other net non-interest income	2,080	1,819	(13)
Operating expenses	(15,087)	(15,719)	4
Total provisions	(10,538)	(1,802)	(83)
Provision for possible loan losses	(11,866)	(1,060)	(91)
Other provision	1,328	(742)	
Main components of balance sheet closing balances	2016	2017	%
Total assets	307,117	312,334	2
Gross customer loans	381,662	287,236	(25)
Gross customer loans (FX-adjusted)	330,200	287,236	(13)
Retail loans	141,749	110,092	(22)
Corporate loans	169,600	158,306	(7)
Car financing loans	18,851	18,838	0
Gross DPD0-90 customer loans (FX-adjusted)	191,098	211,314	11
Retail loans	42,707	44,060	3
Corporate loans	137,555	151,710	10
Car financing loans	10,837	15,544	43
Allowances for possible loan losses	(189,450)	(90,163)	(52)
Allowances for possible loan losses (FX-adjusted)	(164,591)	(90,163)	(45)
Deposits from customers	228,568	234,943	3
Deposits from customer (FX-adjusted)	198,564	234,943	18
Retail deposits	94,151	98,065	4
Corporate deposits	104,413	136,878	31
Liabilities to credit institutions	46,270	33,985	(27)
Total shareholders' equity	24,243	34,079	41
Loan Quality	2016	2017	%/pps
90+ days past due loan volume (in HUF million)	160,009	75,922	(53)
90+ days past due loans/gross customer loans	41.9%	26.4%	(15.5)
Cost of risk/average gross loans	3.03%	0.31%	(2.73)
Cost of risk/average (FX-adjusted) gross loans	3.05%	0.31%	(2.74)
Total provisions/90+ days past due loans	118.4%	118.8%	0.4
Performance Indicators	2016	2017	pps
ROA	3.5%	4.6%	1.1
ROE	n.a.	47.1%	
Total income margin	12.71%	11.19%	(1.52)
Net interest margin	9.02%	7.46%	(1.56)
Cost/income ratio	40.4%	45.4%	5.0
Net loans to deposits (FX-adjusted)	83%	84%	0
FX rates	2016 HUF	2017 HUF	%
HUF/UAH (closing)	10.8	9.2	(15)
HUF/UAH (average)	11.0	10.3	(6)

- ***The Ukrainian subsidiary posted the highest annual ROE within subsidiary banks across the Group (ROE: 47.1%)***
- ***The annual profit increased to HUF 14.1 billion (+38% y-o-y) supported mainly by declining risk costs stemming from favourable credit quality trends***
- ***The DPD90+ rate dropped by 15.5 pps y-o-y to 26.4% reflecting mainly non-performing asset sales/write offs***
- ***Performing loans advanced by 11% y-o-y, while the deposit book grew by 18% (FX-adjusted)***

The financial performance and indicators of OTP Bank Ukraine in HUF terms were affected by the HUF/UAH exchange rate moves: the annual average rate weakened by 6% y-o-y. As a result, there are some differences in local currency P&L and balance sheets dynamics versus those in HUF terms.

OTP Bank Ukraine posted HUF 14.1 billion adjusted after tax profit in 2017 marking a 38% increase (+49% in UAH terms) against the base period. With an annual ROE of 47.1%, the Ukrainian operation excelled itself among subsidiary banks across the Group.

The operating result dropped by 15% y-o-y (-9% in UAH terms), the key reason was the y-o-y 13% decline in net interest income.

Net fees and commissions surged by 11% (+19% in UAH terms), induced by increasing income generated on corporate and credit card transactions.

Operating expenses grew by 4% y-o-y (+12% in UAH terms) amid 14.5% average inflation, fuelled mainly by higher personnel expenses and marketing costs.

Total risk costs dropped by 83% y-o-y. The credit quality showed favourable trends: in 2017 the DPD90+ volumes (FX-adjusted and excluding the impact of loan sales and write-offs) declined by HUF 1.3 billion versus an increase of HUF 11 billion in the base period.

The DPD90+ ratio shrank to 26.4% (-15.5 pps y-o-y). Such a meaningful drop was induced mainly by non-performing loans sales/write offs. In 2017 such volumes comprised HUF 64.2 billion problem loans were sold or written off.

The FX-adjusted total performing loan book grew by 11% y-o-y and by 1% q-o-q. Corporate volumes demonstrated strong y-o-y dynamics (+10%). The retail portfolio grew by 3% y-o-y. Performing consumer loans showed strong dynamics (+43% y-o-y) due to higher credit card and POS loan volumes. Card loan disbursements kept increasing, whereas in the POS segment new volumes surged by 44% y-o-y (in UAH terms). Mortgage lending remained suspended, as a result the performing mortgage book eroded by 20% y-o-y. At the end of December 2017 the volume of net performing USD denominated mortgage loans comprised HUF 3.5 billion, whereas the UAH denominated ones represented HUF 10 billion. From 1Q 2017 car loan sales were resumed, performing volumes increased by 43% y-o-y albeit from a low base (FX-adjusted).

Deposits (adjusted for the FX-effect) increased by 18% y-o-y amid further declining offered deposit rates.

The standalone capital adequacy ratio of the Ukrainian bank according to local standards stood at 15.5% at the end of December 2017 (+3.1 pps y-o-y).

The shareholders' equity of the Ukrainian operation under IFRS was HUF 34.1 billion at the end of December 2017. The Ukrainian shareholders' equity includes that of three entities: the Bank, the Leasing and Factoring companies' equity. Accordingly, the standalone equity of the Bank under IFRS reached HUF 31.7 billion at the end of 2017, whereas the equity of the Leasing Company comprised HUF 1.6 billion. As for the Factoring company, its equity was HUF 0.7 billion.

At the end of 4Q 2017 the total gross amount of intragroup funding exposure toward the Ukrainian group members decreased to HUF 29 billion equivalent (-HUF 17 billion y-o-y) with the following break down: there was an outstanding exposure of USD 98 million equivalent toward the Leasing Company and the remaining USD 15 million toward the Factoring unit.

OTP BANK ROMANIA

Performance of OTP Bank Romania:

Main components of P&L account	2016 HUF million	2017 HUF million	Change %
After tax profit without the effect of adjustments	1,655	3,036	83
Income tax	(483)	(916)	90
Profit before income tax	2,138	3,952	85
Operating profit	8,545	9,346	9
Total income	26,644	27,138	2
Net interest income	20,315	19,779	(3)
Net fees and commissions	3,230	3,064	(5)
Other net non-interest income	3,098	4,295	39
Operating expenses	(18,100)	(17,792)	(2)
Total provisions	(6,407)	(5,394)	(16)
Provision for possible loan losses	(5,541)	(5,062)	(9)
Other provision	(866)	(332)	(62)
Main components of balance sheet closing balances	2016	2017	%
Total assets	588,188	624,060	6
Gross customer loans	524,576	535,140	2
Gross customer loans (FX-adjusted)	508,640	535,140	5
Retail loans	369,275	377,841	2
Corporate loans	139,365	157,298	13
Allowances for possible loan losses	(74,645)	(56,909)	(24)
Allowances for possible loan losses (FX-adjusted)	(70,655)	(56,909)	(19)
Deposits from customers	336,991	337,691	0
Deposits from customer (FX-adjusted)	328,790	337,691	3
Retail deposits	249,773	253,347	1
Corporate deposits	79,017	84,344	7
Liabilities to credit institutions	167,372	196,377	17
Total shareholders' equity	42,510	53,481	26
Loan Quality	2016	2017	%/pps
90+ days past due loan volume (in HUF million)	91,328	72,133	(21)
90+ days past due loans/gross customer loans	17.4%	13.5%	(3.9)
Cost of risk/average gross loans	1.05%	0.95%	(0.11)
Cost of risk/average (FX-adjusted) gross loans	1.06%	0.96%	(0.10)
Total provisions/90+ days past due loans	81.7%	78.9%	(2.8)
Performance Indicators	2016	2017	pps
ROA	0.3%	0.5%	0.2
ROE	3.8%	6.8%	3.0
Total income margin	4.46%	4.49%	0.03
Net interest margin	3.40%	3.27%	(0.12)
Cost/income ratio	67.9%	65.6%	(2.4)
Net loans to deposits (FX-adjusted)	133%	142%	8
FX rates	2016 HUF	2017 HUF	%
HUF/RON (closing)	68.5	66.6	(3)
HUF/RON (average)	69.4	67.7	(2)

- ***The bank posted HUF 3.0 billion net profit in 2017 (+83% y-o-y)***
- ***The operating profit advanced by 9% y-o-y as a result of 2% higher total income and 2% lower operating expenses***
- ***Total risk costs moderated by 16% y-o-y***
- ***The performing FX-adjusted loan portfolio grew by 10% y-o-y supported by strong lending activity in the consumer and corporate segments***

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.

The Summary of the full-year 2017 results does not incorporate the effect of the transaction.

OTP Bank Romania posted HUF 3.0 billion net profit in 2017 exceeding the base period by 83% y-o-y.

The operating profit grew by 9% y-o-y as a result of a 2% increase in total income and a 2% moderation in operating expenses. Within total income the net interest income eroded by 3% y-o-y. Net interest margin narrowed slightly (3.27%, -12 bps y-o-y).

Net fees and commissions moderated by 5% y-o-y, partly due to a regulatory change: effective from 4Q 2016 banks cannot charge fees on cash withdrawals if it is related to new loan disbursement.

Other non-interest income grew by 39% y-o-y (+HUF 1.2 billion). The increase is partially explained by one-off gain on property sale (HUF 0.3 billion) as well as improving FX result.

Operating expenses declined by 2% y-o-y. Apart from lower amortization costs other administrative expenses came down, too mainly due to savings in expenses related to real estates and lower deductible taxes. On the other hand, personnel expenses grew by 6% y-o-y.

DPD90+ volumes (FX-adjusted, without sales and write-offs) grew by HUF 1.9 billion in 2017. During 2017 HUF 16.1 billion problem loans were sold/written off. The DPD90+ ratio declined to 13.5% at the end of 2017 (-3.9 pps y-o-y).

Risk costs declined by 16% y-o-y supported by both lower provision for possible loan losses (-9%) and other risk costs (-62% y-o-y).

The FX-adjusted performing loan volumes increased by 10% y-o-y . Both the retail and corporate segment supported the expansion in 2017 (+7% and +15% y-o-y, respectively). Within retail the consumer and SME segments were the key drivers of growth (+22% and 18% y-o-y, respectively); mortgage volumes grew by 2%. As for new loan disbursements, the cash loan sales improved by 47% y-o-y, while mortgages by 69% y-o-y.

FX-adjusted deposit volumes increased by 3% y-o-y. The growth was supported by retail and corporate inflows, too (+1% and 7% y-o-y, respectively).

The y-o-y increase in shareholders' equity was partly reasoned by a capital injection of EUR 27 million executed by the mother bank. According to local regulation the Bank's standalone capital adequacy ratio stood at 14.5% at the end of 2017.

OTP BANKA HRVATSKA (CROATIA)

Performance of OTP banka Hrvatska (including Splitska banka):

Main components of P&L account	2016 HUF million	2017 HUF million	Change %
After tax profit without the effect of adjustments	3,783	17,105	352
Income tax	(865)	(3,742)	333
Profit before income tax	4,648	20,848	349
Operating profit	13,538	28,779	113
Total income	31,442	63,643	102
Net interest income	22,800	44,313	94
Net fees and commissions	5,330	12,603	136
Other net non-interest income	3,312	6,728	103
Operating expenses	(17,904)	(34,864)	95
Total provisions	(8,890)	(7,931)	(11)
Provision for possible loan losses	(5,331)	(7,498)	41
Other provision	(3,560)	(434)	(88)
Main components of balance sheet closing balances	2016	2017	%
Total assets	649,063	1,821,613	181
Gross customer loans	471,346	1,121,938	138
Gross customer loans (FX-adjusted)	472,217	1,121,938	138
Retail loans	308,539	623,627	102
Corporate loans	163,546	479,610	193
Car financing loans	132	18,700	
Allowances for possible loan losses	(50,051)	(63,752)	27
Allowances for possible loan losses (FX-adjusted)	(50,497)	(63,752)	26
Deposits from customers	515,450	1,395,087	171
Deposits from customer (FX-adjusted)	509,107	1,395,087	174
Retail deposits	443,696	991,776	124
Corporate deposits	65,412	403,312	517
Liabilities to credit institutions	44,141	132,765	201
Total shareholders' equity	74,026	238,935	223
Loan Quality	2016	2017	%/pps
90+ days past due loan volume (in HUF million)	57,127	74,325	30
90+ days past due loans/gross customer loans	12.1%	6.6%	(5.5)
Cost of risk/average gross loans	1.15%	0.85%	(0.29)
Cost of risk/average (FX-adjusted) gross loans	1.15%	0.85%	(0.30)
Total provisions/90+ days past due loans	87.6%	85.8%	(1.8)
Performance Indicators	2016	2017	pps
ROA	0.6%	1.3%	0.7
ROE	5.2%	9.3%	4.1
Total income margin	4.89%	4.70%	(0.19)
Net interest margin	3.54%	3.27%	(0.27)
Cost/income ratio	56.9%	54.8%	(2.2)
Net loans to deposits (FX-adjusted)	83%	76%	(7)
FX rates	2016 HUF	2017 HUF	%
HUF/HRK (closing)	41.1	41.6	1
HUF/HRK (average)	41.3	41.4	0

- ***On 2 May the financial closure of Splitska banka acquisition was completed, thus performance of Splitska banka has already been included into the financial statements of the Croatian operation since May***
- ***In 2017 the Croatian banking group posted HUF 17.1 billion adjusted net profit (ROE: 9.3%), of which Splitska banka's 8 months contribution represented HUF 10.9 billion***
- ***The FX-adjusted gross loan portfolio surged by 138% and deposits by 174% y-o-y, both driven primarily by the Splitska acquisition***

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.

The Croatian P&L account was adjusted for the one-off items directly related to the acquisition; these corrections are shown on consolidated level among the adjustment items. The balance sheet items were not adjusted for the acquisition effect.

In 2017 the **Croatian operation** (including Splitska banka) posted HUF 17.1 billion adjusted after tax profit, exceeding the base period by HUF 13.3 billion. The profit increase was mostly shaped by the consolidation of Splitska banka: it added HUF 10.9 billion to the combined profit through the consolidation of its results reached between the first time consolidation (occurring in May) and December. As for other key P&L lines, in 2017 Splitska banka contributed HUF 20.7 billion to the net interest income, HUF 7.2 billion to the net fees and commissions, HUF 3.3 billion to the other net non-interest income, -HUF 16.6 billion to the operating expenses and -HUF 1.2 billion to the total risk costs line, respectively.

The 2017 ROE indicator of the Croatian operation (including Splitska banka) reached 9.3%.

The net interest margin of the Croatian operation declined by 27 bps, predominantly reasoned by the dilution effect of the lower margin at Splitska banka (3.04%), but a technical effect related to the consolidation played a role, too[6].

In 2017 the cost to income ratio improved by 2.2 pps to 54.8%.

In 2017 altogether HUF 7.9 billion total risk cost was booked, 11% lower than in the previous year. The change was to a certain extent shaped by the fact that HUF 1.7 billion other provisions were written back at Splitska banka in 2Q 2017, mostly induced by the expiry of a bank guarantee: as a consequence, the related provisions were released. During 2017 loan-related risk costs emerged primarily in the corporate segment.

In 2017 the FX-adjusted increase in DPD90+ loans (adjusted for loan sales and write-offs) amounted to HUF 23 billion. The consolidation of Splitska banka's DPD90+ loan volumes was one reason behind. Apart from this, mostly corporate loans slipped into more than 90 days of delay. During the last 12 months HUF 9.4 billion non-performing loans were sold/written off. The DPD90+ ratio changed to 6.6% (-5.5 pps y-o-y).

Based on total assets the market share of the Croatian operation jumped from 4.0% at end-December 2016 to 11.2% at end-November 2017, thanks to the consolidation of Splitska banka. The branch number increased by 93 units y-o-y, the number of ATMs by 255, whereas the number of employees (on an FTE basis) by 1,333 people, respectively.

The y-o-y developments in loan volumes were mainly shaped by the consolidation of Splitska banka's portfolio. The performing (DPD0-90) loan portfolio was consolidated on a gross base, whereas the DPD90+ volumes on a net base (netted off with created provisions at the time of the consolidation). In total, the gross loan portfolio increased by HUF 650 billion, while the performing book by HUF 633 billion (+153% y-o-y), respectively.

At the end of 2017 the gross loan volumes of Splitska banka amounted to HUF 627 billion, whereas performing loans to HUF 606 billion. Excluding Splitska-effect the performing loans expanded by 6% y-o-y (FX-adjusted).

The FX-adjusted deposit base expanded by HUF 886 billion during 2017 (+174%), whereas the end-2017 deposit book at Splitska comprised HUF 849 billion. The net loan to deposit ratio sank by 7 pps to 76% (FX-adjusted).

The y-o-y increase in shareholders' equity to a great extent was related to the capital increase by OTP Bank in order to complete the Splitska acquisition. The capital adequacy ratio of the Croatian subsidiary (holding the shares of Splitska banka) calculated in accordance with local regulation stood at 16.5% at the end of 2017.

[6] The Croatian margin was upwardly biased by the fact that practically the full May net interest income was consolidated, but according to the performance indicator calculation methodology, the total assets of Splitska banka (which influences the denominator of net interest margin) was counted in only from the end of May.

OTP BANKA SLOVENSKO (SLOVAKIA)

Performance of OTP Banka Slovensko:

Main components of P&L account	2016 HUF million	2017 HUF million	Change %
After tax profit without the effect of adjustments	(2,223)	(2,051)	(8)
Income tax	256	(231)	(190)
Profit before income tax	(2,479)	(1,820)	(27)
Operating profit	6,781	6,616	(2)
Total income	17,893	17,452	(2)
Net interest income	14,257	13,358	(6)
Net fees and commissions	3,272	3,627	11
Other net non-interest income	363	467	29
Operating expenses	(11,112)	(10,836)	(2)
Total provisions	(9,260)	(8,436)	(9)
Provision for possible loan losses	(8,987)	(8,358)	(7)
Other provision	(273)	(78)	(71)
Main components of balance sheet closing balances	**2016**	**2017**	**%**
Total assets	453,720	452,084	0
Gross customer loans	388,926	382,932	(2)
Gross customer loans (FX-adjusted)	387,825	382,932	(1)
Retail loans	326,617	330,893	1
Corporate loans	61,147	52,010	(15)
Allowances for possible loan losses	(31,462)	(28,098)	(11)
Allowances for possible loan losses (FX-adjusted)	(31,373)	(28,098)	(10)
Deposits from customers	366,976	343,924	(6)
Deposits from customer (FX-adjusted)	365,285	343,924	(6)
Retail deposits	339,899	318,989	(6)
Corporate deposits	25,387	24,935	(2)
Liabilities to credit institutions	8,104	10,020	24
Subordinated debt	6,223	6,205	0
Total shareholders' equity	27,339	32,200	18
Loan Quality	**2016**	**2017**	**%/pps**
90+ days past due loan volume (in HUF million)	43,451	35,968	(17)
90+ days past due loans/gross customer loans	11.2%	9.4%	(1.8)
Cost of risk/average gross loans	2.35%	2.17%	(0.18)
Cost of risk/average (FX-adjusted) gross loans	2.37%	2.18%	(0.19)
Total provisions/90+ days past due loans	72.4%	78.1%	5.7
Performance Indicators	**2016**	**2017**	**pps**
ROA	(0.5%)	(0.5%)	0.0
ROE	(7.4%)	(7.6%)	(0.2)
Total income margin	3.95%	3.90%	(0.05)
Net interest margin	3.15%	2.98%	(0.16)
Cost/income ratio	62.1%	62.1%	0.0
Net loans to deposits (FX-adjusted)	98%	103%	6
FX rates	**2016 HUF**	**2017 HUF**	**%**
HUF/EUR (closing)	311.0	310.1	0
HUF/EUR (average)	311.5	308.4	(1)

- ***HUF 2.1 billion adjusted after tax loss (-8% y-o-y); risk costs decreased by 9% y-o-y, operating income slightly deteriorated***
- ***Further improving DPD90+ ratio (9.4%, -1.8 pps y-o-y)***
- ***Net interest margin eroded by 16 bps (2.98%), 1% y-o-y increase of the FX-adjusted performing loan book***

OTP Banka Slovensko posted HUF 2.1 billion adjusted after tax loss in 2017, which is lower by 8% compared to 2016. The negative result on the profit before income tax line is by 27% lower than in 2016 explained by the decreasing risk costs (-9% y-o-y); operating income diminished by 2%.

Net interest income declined by 6% y-o-y due to decreasing net interest margin. The net interest margin decreased by 16 bps y-o-y, since the lower interest income on loans couldn't be counterbalanced by lower funding cost as a result of deposit interest rate cuts. Furthermore, the Bank offered retail loans with interest discounts during the spring and autumn sales campaign.

The net fee and commission income increased by 11% y-o-y, mainly as a result of higher commission income on deposits and transactions. The other net non-interest income grew by HUF 0.2 billion y-o-y.

In 2017 operating expenses decreased by 2% y-o-y, within that personnel and other expenses remained flat, therefore the decline is explained by lower software amortization.

Total risk cost declined by 9% y-o-y. In 2017 the FX-adjusted DPD90+ loan growth (without the effect of sales and write-offs) was HUF 5 billion (2016: HUF 6 billion). The DPD90+ ratio decreased by 1.8 ppt q-o-q to 9.4%. In 2017 around HUF 7.6 billion equivalent non-performing loans were sold or written off.

The FX-adjusted gross loan book shrank by 1%, while the performing loan book expanded by 1% y-o-y. The latter can be explained by 7% higher mortgage volumes; FX-adjusted corporate loan volumes declined by 13% y-o-y. In 2017 the newly disbursed cash loans decreased by 9% y-o-y (in local currency), thus the performing cash loan book declined by 2%. Newly disbursed mortgage volumes dropped by 24% y-o-y.

The FX-adjusted deposit volumes eroded by 6% y-o-y, driven mainly by the 6% drop in the volume of retail deposits; the volume of corporate deposits comprising 7% of the total deposit book decreased by 2% y-o-y.

The y-o-y increase of the bank's shareholders' equity was reasoned by a capital injection of EUR 23 million made by the mother bank. The standalone IFRS capital adequacy ratio stood at 15.0% at the end of December 2017.

OTP BANKA SRBIJA (SERBIA)

Performance of OTP banka Srbija (including Vojvodjanska banka):

Main components of P&L account	2016 HUF million	2017 HUF million	Change %
After tax profit without the effect of adjustments	39	(2,904)	
Income tax	34	109	222
Profit before income tax	5	(3,013)	
Operating profit	697	1,360	95
Total income	7,720	10,071	30
Net interest income	5,769	7,235	25
Net fees and commissions	1,653	2,275	38
Other net non-interest income	298	561	88
Operating expenses	(7,023)	(8,711)	24
Total provisions	(692)	(4,373)	532
Provision for possible loan losses	(890)	(3,133)	252
Other provision	198	(1,241)	
Main components of balance sheet closing balances	**2016**	**2017**	**%**
Total assets	123,279	482,887	292
Gross customer loans	108,704	306,874	182
Gross customer loans (FX-adjusted)	109,565	306,874	180
Retail loans	49,017	155,878	218
Corporate loans	60,548	150,997	149
Allowances for possible loan losses	(26,349)	(19,759)	(25)
Allowances for possible loan losses (FX-adjusted)	(27,107)	(19,759)	(27)
Deposits from customers	78,583	349,553	345
Deposits from customer (FX-adjusted)	79,505	349,553	340
Retail deposits	48,455	238,733	393
Corporate deposits	31,050	110,820	257
Liabilities to credit institutions	8,572	38,397	348
Subordinated debt	2,511	2,505	0
Total shareholders' equity	28,805	80,070	178
Loan Quality	**2016**	**2017**	**%/pps**
90+ days past due loan volume (in HUF million)	35,504	28,372	(20)
90+ days past due loans/gross customer loans	32.7%	9.2%	(23.4)
Cost of risk/average gross loans	0.83%	2.64%	1.81
Cost of risk/average (FX-adjusted) gross loans	0.85%	2.64%	1.79
Total provisions/90+ days past due loans	74.2%	69.6%	(4.6)
Performance Indicators	**2016**	**2017**	**pps**
ROA	0.0%	(2.0)%	(2.0)
ROE	0.1%	(9.5)%	(9.6)
Total income margin	6.16%	6.84%	0.68
Net interest margin	4.60%	4.92%	0.31
Cost/income ratio	91.0%	86.5%	(4.5)
Net loans to deposits (FX-adjusted)	104%	82%	(22)
FX rates	**2016 HUF**	**2017 HUF**	**%**
HUF/RSD (closing)	2.5	2.6	4
HUF/RSD (average)	2.5	2.5	1

- ***The financial closure of the acquisition of Vojvodjanska banka was completed on 1 December 2017, thus 2017 Serbian figures already incorporated the balance sheet, as well as one month earnings contribution of the acquired bank***
- ***In 2017 the Serbian operation posted HUF 2.9 billion loss***
- ***The operating profit almost doubled y-o-y; half of the increase was related to Vojvodjanska banka***
- ***As a result of the consolidation, FX-adjusted performing loan volumes grew almost four-fold***
- ***The DPD90+ ratio declined below 10%***

Based on the acquisition agreement signed on 4 August 2017 by OTP banka Srbija a.d. Novi Sad, the Serbian subsidiary of OTP Bank and the Group of National Bank of Greece ("NBG") 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 financial closure of the transaction has been completed on 1 December 2017 and Vojvodjanska banka was consolidated.

The Serbian P&L account was adjusted for the one-off items directly related to the acquisition; these corrections are shown on consolidated level among the adjustment items. The balance sheet items were not adjusted for the acquisition effect.

The Serbian operation (including Vojvodjanska banka) posted HUF 2.9 billion loss in 2017 versus a profit of HUF 39 million achieved in 2016.

The dynamism of P&L lines was predominantly shaped by the consolidation of Vojvodjanska banka. As for the operating profit the contribution of Vojvodjanska banka comprised HUF 0.3 billion, withint that it brought in HUF 1.1 billion in net interest income, HUF 0.4 billion in net fees and commissions and HUF 0.3 billion other income, respectively. The operating costs reached HUF 1.5 billion, while the total risk cost amounted to HUF 0.4 billion.

The operating profit of the Serbian operation almost doubled y-o-y, within that total income advanced by 30%, while operating expenses went up by 24%. Without the effect of Vojvodjanska acquisition, the operating profit grew by 48%, total income by 7% and operating expense by 3% y-o-y, respectively.

Total risk costs comprised HUF 4.4 billion underpinning a y-o-y HUF 3.7 billion increase. Part of the growth was related to the revaluation of collaterals behind DPD90+ volumes which induced a risk cost increase in 4Q; on the other hand, other risk cost also increased. Furthermore, the consolidation of Vojvodjanska banka added HUF 0.4 billion to annual risk costs.

Within the total income of the Serbian operation, both the net interest income and net fees and commission income grew substantially (+25% and +38% y-o-y). Even without the consolidation the dynamism was material (+7% and 13%, respectively).

The net interest margin (4.92%) improved by 31 bps y-o-y and it was entirely the result of the consolidation of Vojvodjanska banka[7]; without it the Serbian NIM remained stable y-o-y.

The DPD90+ loan portfolio decreased by HUF 7.1 billion y-o-y. The DPD90+ portfolio of Vojvodjanska banka was consolidated net of provisions, i.e. adjusted for provisions already set aside at the time of consolidation. The DPD90+ portfolio at Vojvodjanska banka stood at HUF 4.1 billion in December 2017. In 2017 HUF 11 billion non-performing portfolio was sold or written-off. The DPD90+ ratio shrank to 9.2% by the end of 2017.

Loan volume trends were mainly shaped by the consolidation of Vojvodjanska banka. The performing (DPD0-90) loan portfolio was consolidated on a gross base, whereas the DPD90+ volumes on a net base (as explained earlier).The FX-adjusted performing volumes increased almost four-fold y-o-y as a result of the consolidation. But even without the merger effect performing volumes expanded by 17% y-o-y.

The y-o-y increase of shareholders' equity was reasoned by the capital injection made by the mother bank in relation to the acquisition of Vojvodjanska banka. According to local regulation the capital adequacy ratio of the Serbian subsidiary holding the shares of Vojvodjanska banka stood at 28.4% at the end of 2017.

[7] The 4Q 2017 Serbian margin was upwardly biased by the fact that practically the full December net interest income of Vojvodjanska banka was consolidated, but according to the performance indicator calculation methodology, the total assets of Vojvodjanska banka (which influences the denominator of net interest margin) was counted in only from the end of December.

CRNOGORSKA KOMERCIJALNA BANKA (MONTENEGRO)

Performance of CKB:

Main components of P&L account	2016 HUF million	2017 HUF million	Change %
After tax profit w/o dividends and net cash transfer	(1,849)	(155)	(92)
Income tax	2	(11)	
Profit before income tax	(1,851)	(144)	(92)
Operating profit	2,684	1,802	(33)
Total income	10,022	9,709	(3)
Net interest income	6,951	6,543	(6)
Net fees and commissions	2,622	3,319	27
Other net non-interest income	449	(153)	
Operating expenses	(7,337)	(7,907)	8
Total provisions	(4,535)	(1,947)	(57)
Provision for possible loan losses	(4,289)	(864)	(80)
Other provision	(246)	(1,083)	339
Main components of balance sheet closing balances	**2016**	**2017**	**%**
Total assets	197,562	197,590	0
Gross customer loans	143,331	138,485	(3)
Gross customer loans (FX-adjusted)	142,926	138,485	(3)
Retail loans	71,480	72,987	2
Corporate loans	71,446	65,499	(8)
Allowances for possible loan losses	(56,513)	(38,899)	(31)
Allowances for possible loan losses (FX-adjusted)	(56,353)	(38,899)	(31)
Deposits from customers	149,119	152,316	2
Deposits from customer (FX-adjusted)	147,783	152,316	3
Retail deposits	112,614	116,502	3
Corporate deposits	35,169	35,814	2
Liabilities to credit institutions	20,765	17,962	(13)
Subordinated debt	0	0	
Total shareholders' equity	21,188	21,127	0
Loan Quality	**2016**	**2017**	**%/pps**
90+ days past due loan volume (in HUF million)	60,801	43,395	(29)
90+ days past due loans/gross customer loans	42.4%	31.3%	(11.1)
Cost of risk/average gross loans	2.90%	0.63%	(2.27)
Cost of risk/average (FX-adjusted) gross loans	2.93%	0.62%	(2.31)
Total provisions/90+ days past due loans	92.9%	89.6%	(3.3)
Performance Indicators (%)	**2016**	**2017**	**pps**
ROA	-1.0%	-0.1%	0.9
ROE	-7.9%	-0.7%	7.1
Total income margin	5.16%	5.02%	(0.14)
Net interest margin	3.58%	3.38%	(0.19)
Cost/income ratio	73.2%	81.4%	8.2
Net loans to deposits (FX-adjusted)	59%	65%	7
FX rates	**2016 HUF**	**2017 HUF**	**%**
HUF/EUR (closing)	311.0	310.1	0
HUF/EUR (average)	311.5	309.2	(1)

- ***In 2017 the bank posted HUF 0.2 billion loss***
- ***The operating profit dropped by 33% y-o-y as a result of 3% lower total income and 8% increase in operating expenses; however total risk costs more than halved y-o-y***
- ***The DPD90+ ratio (31.3%) improved in 2017, supported also by sale/write offs***
- ***FX-adjusted performing loan volume increase was mainly due to the expansion of the corporate segment***

The Montenegrin **CKB Bank** posted HUF 0.2 billion loss in 2017 against HUF 1.8 billion loss in 2016.

The operating profit declined by 33% y-o-y due to lower total income (-3% y-o-y) and increasing operating expenses (+8% y-o-y). The weaker income was shaped by the erosion of net interest income (-6% y-o-y) and lower other net non-interest income. The net interest margin eroded by 19 bps y-o-y, because lower interest income on newly disbursed exposures couldn't be off-set by moderating cost of funding. The decline in other net non-interest income was related to losses realized on property sales.

Effective from 4Q 2017 the contribution paid into the deposit insurance scheme and booked earlier within net fees and commissions was shifted into the operating cost line in a lump sum for the whole year

(HUF 0.7 billion). The y-o-y 27% surge in net fees and commissions was reasoned by that reclassification, without that the annual net fee and commission would have eroded by 1% y-o-y. Simultaneously, the 8% y-o-y increase of operating expenses was mainly induced by this shift; the adjusted cost dynamism would have shown a y-o-y 2% moderation.The total risk cost dropped by 57% y-o-y.

The DPD90+ ratio (31.3%) improved further by 11.1 pps y-o-y. The DPD90+ loan volume (FX-adjusted, without sales and write offs) decreased by HUF 0.9 billion y-o-y. During 2017 HUF 17 billion non-performing loans were sold/written off.

The FX-adjusted performing loan portfolio increased by 16% y-o-y mainly due to the remarkable growth of corporate exposures (+35% y-o-y). The retail portfolio also increased (+6% y-o-y): the mortgage loans advanced by 8% y-o-y and the consumer portfolio by 5%, respectively.

The FX-adjusted deposit portfolio grew by 3% y-o-y.

The capital adequacy ratio calculated according to local requirements stood at 22.6% at the end of 2017.

STAFF LEVEL AND OTHER INFORMATION

The closing staff number of OTP Group (including the number of employed selling agents) was 35,633 as of 31 December 2017. The Serbian increase mainly reflects to the Vojvodjanska banka acquisition (1,473 employees).

OTP Group provides services through 1,488 branches and 4,340 ATMs in 9 countries of the CEE-region. In Hungary, OTP Bank has an extensive distribution network which includes 362 branches and 1,945 ATM terminals. OTP Bank (Hungary) has 70 thousands POS terminals.

	31/12/2016				31/12/2017			
	Branches	ATM	POS	Headcount (closing)	Branches	ATM	POS	Headcount (closing)
OTP Core	367	1,883	59,988	8,293	362	1,945	70,002	9,049
o/w: new OTP Core members from 1Q 2017								581
DSK Group	372	892	5,723	4,679	367	890	7,005	4,872
OTP Bank Russia (w/o employed agents)	134	267	1,446	4,744	134	230	1,079	4,956
Touch Bank (Russia)	0	0	0	268	0	0	0	356
OTP Bank Ukraine (w/o employed agents)	84	118	246	2,151	85	115	382	2,224
OTP Bank Romania	100	147	3,374	1,119	96	139	4,351	1,163
OTP banka Hrvatska (including Splitska banka)	103	273	2,269	1,097	196	528	10,765	2,430
OTP Banka Slovenko	61	142	223	667	62	148	276	674
OTP banka Srbija (including Vojvodjanska banka)	52	118	2,303	611	157	254	5,098	2,103
CKB	29	87	4,991	424	29	91	4,070	429
Foreign subsidiaries, total	**935**	**2,044**	**20,575**	**15,758**	**1,126**	**2,395**	**33,026**	**19,206**
Other Hungarian and foreign subsidiaries[1]				1,327				860
OTP Group (w/o employed agents)				**25,378**				**29,115**
OTP Bank Russia - employed agents				*6,324*				*5,771*
OTP Bank Ukraine - employed agents				*633*				*747*
OTP Group (aggregated)	**1,302**	**3,927**	**80,563**	**32,335**	**1,488**	**4,340**	**103,028**	**35,633**

[1] Due to the changes of the data provider group members, and companies (previously presented among other Hungarian Group members) becoming member of OTP Core from 1Q 2017, the historical employee numbers of Other Hungarian and foreign subsidiaries are not comparable.

STATEMENT ON CORPORATE GOVERNANCE PRACTICE

Corporate governance practice

OTP Bank Plc., being registered in Hungary, has a corporate governance policy that complies with the provisions on companies of the act applicable (Civil Code). As the company conducts banking operations, it also adheres to the statutory regulations pertaining to credit institutions.

In accordance with the statutory requirements and the recommendation concerned, as a listed company on the Budapest Stock Exchange (BSE), the company also makes an annual declaration on its compliance with the BSE's Corporate Governance Recommendations. After being approved by the General Meeting, this declaration is published on the website of the BSE (www.bet.hu), the information storage system operated by National Bank of Hungary (www.kozzetetelek.hu), and the website of the Bank (www.otpbank.hu).

The purposes of applying the Corporate Governance Recommendations of the BSE is to facilitate the transparent and efficient market operation, support the enforcement of the laws as well as harmonise the interests of the organisation, the investors and the organisation's environment.
On the basis of the Corporate Governance Recommendations of the BSE – in line with the "comply or explain" principle – organisations need to report on their compliance with the provisions of certain specific points of the recommendation as well as whether they apply certain suggestions as provided for in the recommendation. Conforming to and observing the provisions of the Corporate Governance Recommendations of the BSE is recommended, although not compulsory for companies listed on the stock exchange and a negative answer in itself does not indicate a deficiency. With regard to the suggestions, companies only need to indicate whether they apply the given guideline or not, they are not required to provide additional explanation.

OTP Bank Plc. provided a negative answer to the following recommendations and suggestions:

R 1.1.2 The Company follows the "one share – one vote" principle
Each of the Company's ordinary shares ensures one voting right. In keeping with the stipulations of the Company's Articles of Association, voting rights depend specifically on the size of the shareholding.
Transactions, specified in 2.6.2, which depart from regular business practices and the conditions thereof were accepted by the Supervisory Board (Audit Committee).
The Company prepared procedural rules for approving transactions that depart from usual business practices, and this ensures adequate control.
R 2.7.2 The Board of Directors evaluated its own performance in a given business year.
The Company has a Nomination Committee, which has assessed the board's work.
R 2.7.2.1 The Supervisory Board evaluated its own performance in a given business year.
The Company has a Nomination Committee, which has assessed the board's work.
R 2.7.7 The Company has prepared a Declaration on Remuneration and presented it to the General Meeting.
The Declaration on Remuneration contains the remuneration of certain members of the Board of Directors, the Supervisory Board, and the management.
R 4.1.11 The Company has published in its annual report and on its website a Declaration on Remuneration, which describes the remuneration guidelines used and, specifically, the guidelines pertaining to the remuneration of members of the Board of Directors, the Supervisory Board and the management.
G 3.4.5 The Remuneration Committee ensures that a declaration on remuneration is prepared.
In compliance with the applicable European Union directive (CRD IV) and the provisions of the Act on Credit Institutions and Financial Enterprises, the Bank's General Meeting concluding the year 2016, its Board of Directors and Supervisory Board have provided for the review of the Remuneration Policy of the Bank and the Bank Group. In line with the national and EU legislative environment, the process of implementing the Bank Group's Remuneration Policy includes the methodological framework relating to the identification of activities and employees with a material impact on risk, which constitutes the basis for determining the group of persons subject to the Bank Group's Remuneration Policy, and the rules of procedure relating to the annual evaluation process.
The purpose of the Bank Group's Remuneration Policy is, remaining within the limits of the Bank Group's risk-bearing capacity, to recognise and provide motivational support for the achievement of Bank and Group-level results by the management and holders of key positions at the Bank, and the managers of subsidiaries in the Bank Group.
The Bank Group's Remuneration Policy applies to the members of the Bank's and the Bank Group's (credit institutions and investment firms) Board of Directors and Supervisory Board, and – among the staff in an

employment relationship with the Bank and other institutions operating in the Bank Group – the members of the management (Chairman & CEO and the deputies thereof), and managers who materially influence the risk profile and its profit, managers performing special executive functions, managers with control functions, all managers whose salaries are in the same pay scale as that of the management of the given institution. The Remuneration Policy also applies to the chief executive officers and their deputies of those Bank Group subsidiaries that are subject to consolidated supervision and considered as major business units for the Bank or its given subsidiary, and to those employed by the Bank Group subsidiary subject to consolidated supervision having a salary in the best-earning 0.3% segment at the level of the Bank Group or the sub-consolidated group led by the institution or the institution. Managers whose impact on the risk profile is significant at the Bank Group level are subject to the consolidated level personal scope, while managers whose impact on the risk profile is significant only to the sub-consolidated group led by the institution or institution level are subject to the sub-consolidated or the local level personal scope. The resolution on the persons to whom the Bank Group's Remuneration Policy applies is made by the Bank's Supervisory Board.

The members of the Board of Directors and the Supervisory Board receive an honorarium of a fixed amount for their work in this capacity, and do not receive performance-based remuneration.

For the other personnel included in the scope of the Remuneration Policy, the remuneration is composed of fixed and performance-based components. The proportions of fixed and performance-based components of remuneration are determined by the Bank's Supervisory Board based on the function, size and complexity of the unit being managed. The proportion of performance-based remuneration may not exceed 100% of fixed remuneration for any person concerned.

The most important basic principle of the Bank Group's Remuneration Policy is that the extent of performance-based remuneration – subject to a preliminary and retrospective assessment of the risks – depends on the extent to which Bank Group/Bank/Subsidiary-level and individual targets are met.

In the case of managers in an employment relationship with the Bank, the evaluation of performance, besides an assessment of the return on risk-weighted assets (RORAC) indicator for the given activity, takes place on the basis of the criteria used to measure strategic and individual performance (financial indicators and indicators of the quality of work performance). In the case of managers at subsidiaries in the Bank Group the evaluation of performance takes place in a differentiated manner, in keeping with the characteristics of the companies' activities. The target values of the indicators are determined by the Bank's Supervisory Board on the basis of the effective financial plan for the given year.

The performance evaluation-based, variable remuneration takes the form of a cash bonus and – where permitted by national legislation – remuneration exchanged for shares or a preferentially-priced share package, in equal proportions (50-50%). As a general rule, for the consolidated level, the share-based part of the variable remuneration is provided to the employees concerned by the Bank, while for the sub-consolidated and the local level as well as for the Bank Group subsidiaries operating outside the European Union, virtual stock transfers (payment of cash bonus corresponding to the prevailing exchange rate) is made.

Employees employed by OTP Bank Plc., OTP Mortgage Bank Ltd., OTP Building Society Ltd. and Merkantil Bank Ltd. subject to the consolidated level personal scope of the Bank Group's Remuneration Policy receiving performance-based remuneration are entitled to acquire a membership stake in OTP Bank MRP Organisation to the extent of the share-based part of their performance-based remuneration on the basis of their voluntary resolution. The membership stake in OTP Bank MRP Organisation is non-marketable, cannot be credited, cannot be offered as collateral and only enables the individual to receive the actual settlement of the share package if the conditions as stipulated in the Remuneration Policy (the result of the performance evaluation, the subsequent risk assessment) are met. Membership stakes not meeting the conditions revert to OTP Bank Plc.

In keeping with the Credit Institutions Act, at consolidated level payment of 60%, while at sub-consolidated and local level, as a general rule, 40% of the variable remuneration is staggered over a period of three years – in case of the Bank's Management a period of four years –, during which period the deferred amount is determined annually in equal proportions. Determination of eligibility to receive the deferred instalments takes place on the basis of a retrospective assessment of the risks. The assessment of the risks is based both on quantitative criteria used to measure prudent operation, and on qualitative evaluation criteria. Based on the assessment of the risks related to the activities of the employees concerned, the deferred part of the performance-based remuneration may be reduced or withheld completely. A further prerequisite for entitlement to the deferred part is a continuing employment relationship.

The remuneration of the members of the Supervisory Board and the Board of Directors, which is determined in a resolution of the General Meeting, is public, while with respect to the remuneration policy, the Bank complies with its public disclosure obligation in accordance with the prevailing statutory provisions.

R The Managing Body pre-determined in a resolution what circumstances constitute "significant bearing".

The Board of Directors did not take any decision in that respect in 2017.

R 3.1.6 The company published on its website the tasks delegated to the Audit Committee, and the committee's objectives, rules of procedure and composition (specifying the members' names, a brief CV and the date of appointment).
OTP Bank Plc. has established and operates an Audit Committee, which supports the work of the Supervisory Board, and the Bank has published the names of the members, each with a brief CV. The tasks delegated to the Audit Committee, and the objectives and procedural rules of the Committee, are not in the public domain.
R 3.1.6.1 The company published on its website the tasks delegated to the Nomination Committee, and the committee's objectives, rules of procedure and composition (specifying the members' names, a brief CV and the date of appointment).
OTP Bank Plc. has established and operates an Audit Committee, which supports the work of the Supervisory Board, and the Bank has published the names of the members, each with a brief CV. The tasks delegated to the Audit Committee, the objectives and procedural rules of the Committee are not in the public domain.
R 3.4.4.2 The Remuneration Committee reviewed the terms and conditions of contracts that were concluded with the management.
A review of the terms of contracts concluded with members of the management does not fall within the remit of the Remuneration Committee.
R 3.5.1 The Board of Directors has disclosed its reasons for merging the Remuneration and the Nomination Committee.
The Company operates both a Remuneration Committee and a Nomination Committee.
R 3.5.2 The Board of Directors performed the tasks of the Nomination Committee and issued a statement on its reasons for doing so.
The Nomination Committee performed its own tasks.
R 3.5.2.1 The Board of Directors performed the tasks of the Remuneration Committee and issued a statement on its reasons for doing so.
The Remuneration Committee performed its own tasks.
G 1.3.1 The Company's General Meeting accepted the chairman of the General Meeting prior to the actual discussion of the agenda items.
For the purpose of the Articles of Association of the Company, the Chairman of the Board or another person mandated by the Board of Directors for this purpose chairs the General Meeting.
G 1.4.2 The Company published its guidelines concerning solutions for preventing hostile takeovers directed at the Company.
The domestic legislation provide appropriate guarantee for the procedures relating to acquisitions and the enforcement of the shareholders' interests.
G 2.5.3 The Company provided information about how it ensures that the Board of Directors remains objective in its evaluation of the management activities in the event that the position of Chairman & CEO is combined.
A Nomination Committee operates at the Company which evaluates the activity.
G 2.5.5 No member of the Company's Supervisory Board held a position on the Company's Board of Directors or in the management in the three years prior to his/her nomination.
The Supervisory Board of the Company has such a member who held a position in the management of the company in the three years preceding his designation.
G 3.1.2 The chairman of the Audit Committee regularly informs the Board of Directors of the individual meetings of the committee, and the committee prepares at least one report each business year for the executive body and the Supervisory Board.
Based on the Civil Code the Audit Committee is a body assisting the Supervisory Board, its members are elected by the General Meeting from among the independent members of the Supervisory Board. Since the functions of these bodies are closely linked to each other, the chairman of one board is the vice president of the other board and vice versa, so the Supervisory Board is aware of the Audit Committee's decisions. Special reporting is not justified for the Supervisory Board. The Audit Committee does not need to report for the executive body.
G 3.3.5 The Nomination Committee's rules of procedure include the stipulations specified in point 3.3.5.
For the conditions of performing the evaluation activity, the Company has drafted rules of procedure which provide appropriate control.

System of internal controls

The main function of the internal audit system is to protect customers, the company's assets and shareholder's interests, as well as to facilitate and monitor operation in compliance with the statutory provisions.

The internal audit system extends to all of the company's organisational units, business lines and activities, including outsourced activities. To ensure effective auditing, the internal audit system consists of several modular control levels, and is also segmented in line with the departmental structure of the organisation. The elements of the internal audit system are comprised of in-process and management controls, and an independent internal audit unit and management information system.

OTP Bank Plc. has developed and applies such a uniform internal audit system consistently throughout the Bank Group that is proportionate to the size of the OTP Group and the market share of the Company, includes shareholder audits conducted at the foreign and domestic group members as well as the professional oversight of the internal audit organisations of the financial institutions that are subject to consolidated supervision as specified in the Credit Institutions Act. To this end, standardised internal audit procedures and methodologies pertaining to the operation and activities of group members' internal audit departments are developed, enhanced and applied on a continuous basis. Internal audit also liaises regularly and cooperates with external auditing bodies.

The independent internal audit unit assists in the legally compliant and effective management of assets and liabilities and the protection of property; it supports secure business operation, the effectiveness, cost-efficiency and success of internal control systems, the minimisation of risks, and moreover – alongside the compliance unit – it detects and reports departures from the provisions of the statutory regulations and internal policies, makes recommendations for the elimination of deficiencies, and monitors the implementation of the measures. It performs its activities independently, objectively and professionally. Its independence is ensured by the fact that it is professionally overseen by the Supervisory Board, within the framework set out by the Credit Institutions Act. The independent internal audit organisation was set up in a manner that the execution of ownership controls at the Organisation, in the network and at the foreign and domestic group members, as well as the professional supervision of the foreign and domestic internal audit organisation is properly ensured.

The independent internal audit organisation has an annual audit plan which is approved by the Supervisory Board. The annual plan is prepared using a risk-based methodology and, in addition to focusing on the areas that entail regulatory, business and operational risk, and the other main risk exposures, it emphasizes especially the control of reporting and data, further, it also takes into account the company's prevailing strategic priorities.

The internal audit organisation makes independent reports on its auditing activities for the management bodies at quarterly and annual intervals. In its quarterly reports it gives a group-level, summary account of the audits conducted in the given quarter, the risks identified in the course of its own audits and audits conducted by the authorities, and the success of any action taken to eliminate them. In exceptional cases that require immediate intervention, it provides the management with extraordinary briefings. The audit organisation reports annually on the performance of the tasks stipulated in the group-level annual audit schedule, the audits conducted and other activities, and on the circumstances of the organisation's operation, as well as on any changes to the internal audit system.

The organisation annually prepares, for the Supervisory Board, objective and independent reports in respect of the operation of risk management, internal control mechanisms and corporate governance functions.

The basis for effective group-level risk management is the operation of a standardised, "OTP-compatible" organisational structure as well as regulations and procedures at the subsidiaries concerned. The Company has detailed risk management rules for each of the various types of risk (liquidity, market, country, counterparty, credit, operational, compliance), and these rules are in harmony with the statutory regulations pertaining to prudential banking operations. The annual report describes the risk management practices, the limits, and compliance with these limits.

Within the Company, the Credit Approval and Risk Management Division and the Strategy and Finance Division exercise functional control over the guidelines, methodology and infrastructure of the Bank Group's risk management strategy, the purpose of which is to create a clearly defined, transparent, standardised credit, country, counterparty, market and operational risk management system at group level which complies with the expectations of the supervisory authority and local conditions. The Bank Group's Risk Strategy, as well and the rules on risk prescribed by the Credit Institutions Act, are approved by the Bank's Board of Directors.

The Risk Strategy determines, with respect to the entire Bank Group, the framework for risk management and the principles and guidelines of risk assumption.

With respect to the cornerstones of the risk management methodologies, and the main risk topics for Bank Group members, the final decision-making competence is held by the Group members' risk committees (Credit and Limit Committee, Workout Committee, Group Operational Risk Committee).

The Bank's risk management system encompasses the identification of the risks, assessment of their impact, elaboration of the necessary action plans, and the monitoring of their effectiveness and results. The management make their business decisions in a knowledge of all the key risks. All significant risks related to internal and external operations, or to compliance with financial and legal requirements, as well as numerous other risks, are evaluated and managed using a clearly-defined and transparent internal mechanism.
In adopting its accounting policy and defining its accounting order the Bank uses its own control mechanisms and processes ensuring properly to reach the following goals: to draw up reliable financial reports, to carry out various successful and effective operations for the company, to comply with the legislation in force and to fully comply with the provisions related to the supplying of data to the Regulators. All competencies of the banking units responsible for drawing up the report and the accounting control are set up in an internal regulation instrument.
The internal regulation shall define the closing competencies and data supplying necessary for drawing up the interim (monthly, quarterly and six-month) and the annual disclosure reports. It provides a complete guidance for the interim (monthly, quarterly, six-month) and the annual closing competencies, tasks and supplying of data. The internal regulation sets up deadlines and appoints responsible officers for the tasks.
The internal regulation also orders the inventory and conciliation of ledger records containing provisional registration of items which – for various reasons – could not be immediately cleared on a real account of assets/ liabilities or on the general ledger accounts serving for registration of items outside the balance sheet at the time when they emerged.
Act no. 100 of 2000 on Accounting (IFRS) provides that the report shall rest on an inventory. Internal regulation sets detailed rules of inventory tasks in order to ensure a genuine balance sheet rest on proper definition of stocks of assets and liabilities, to check the bookkeeping and the accountancies and to reinforce this way the documentary discipline, to protect belongings, to explore inventories of decreased value and the assets out of use.

Furthermore, the Bank draws up and applies a detailed accounting system and continuously adapts new accounting measurements related the actual products and activities. Internal regulations on accounting are revised annually and updated if necessary. The legal, the internal audit and the compliance area are involved in the drafting and amending of these regulations.

General meeting, Articles of Association

The General Meeting is the supreme governing body of OTP Bank Plc. The regulations pertaining to its operation are set forth in the Company's Bylaws, and comply fully with both general and special statutory requirements. Information on the General Meeting is available in the Corporate Governance Report.

Regulations and information to be presented in the Business Report concerning securities conferring voting rights issued by the Company and senior officials, according to the effective Articles of Association, and ownership structure

The Company's registered capital is HUF 28,000,001,000, that is twenty-eight thousand million one thousand Hungarian forint, divided into 280,000,010 that is Two hundred and eighty million and ten dematerialised ordinary shares with a nominal value of HUF 100 each, and a total nominal value of HUF 28,000,001,000, that is twenty eight billion one thousand Hungarian forint.

The ordinary shares of the Company specified all have the same nominal value and bestow the same rights in respect of the Company.

There are no restrictions in place concerning the transfer of issued securities constituting the registered capital of the Company.

No securities with special control rights have been issued by the Company.

The Company does not run control systems prescribed by an employee ownership program, where control rights are not exercised directly by the employees.

Rules on the restrictions of the voting rights:

The Company's ordinary shares confer one vote per share.

An individual shareholder or group of shareholders may not exercise voting rights in respect of in an extent exceeding 25%, or – if the voting rights of another shareholder or group of shareholders exceed 10% – exceeding 33% of the total voting rights represented by the shares conferring voting rights at the Company's General Meeting.

The shareholder is obliged to notify the Company's Board of Directors without delay if the shareholder directly or indirectly, or together with other shareholders in the same group of shareholders, holds more than 2% of the voting rights represented by the shares conferring voting rights at the Company's General Meeting. Concurrently with this, the shareholder is obliged to designate the shareholders through which the indirect voting right exists, or the members of the group of shareholders. In the event of a failure to provide such notification, or if there are substantive grounds for assuming that the shareholder has made a misleading declaration regarding the composition of the shareholder group, then the shareholder's voting right shall be suspended and may not be exercised until the shareholder has met the above obligations. The notification obligation stipulated in this paragraph and the related legal consequences are also incumbent upon individuals who are classified or may be classified as the Company's shareholders under Article 61 of the Capital Markets Act. The Company must also be provided with proof of the conditions for exemption from the notification obligation in accordance with Section 61 (7)-(8) and Section 61 (10)-(11)-(12), of the Capital Markets Act.

Shareholder group: the shareholder and another shareholder, in which the former has either a direct or indirect shareholding or has an influence without a shareholding (collectively: a direct and/or indirect influence); furthermore: the shareholder and another shareholder who is exercising or is willing to exercise its voting rights together with the former shareholder, regardless of what type of agreement between the participants underlies such concerted exercising of rights.

For determining the existence and extent of the indirect holding, the rules of the Credit Institutions Act relating to the calculation of indirect ownership shall be applied.

If the voting rights that may be exercised by a shareholder group exceed the threshold stipulated in the first paragraph of this section, the voting rights shall be reduced in such a way that the voting rights relating to the shares most recently acquired by the group of shareholders shall not be exercisable.

If there are substantive grounds to presume that the exercising of voting rights by any shareholder or shareholders might result in a breach of the rules of the Capital Markets Act relating to the acquisition of a controlling interest, the Board of Directors' authorised representative responsible for the registration of shareholders at the venue of the General Meeting, or the Chairman of the General Meeting, may exclude the affected shareholders from attending the General Meeting or exercising voting rights.

The General Meeting has exclusive authority with respect to the decision regarding the delisting of the shares (qualified majority).

The Company is not aware of any kind of agreements among the owners that could give rise to the restriction of the transfer of issued securities and/or the voting rights.

Rules on the appointment and removal of executive officers, and rules on amendment of the Articles of Association:

The Board of Directors has at least 5, and up to 11 members.

When making the decisions, shares embodying multiple voting rights shall represent one share.The members of the Board of Directors are elected by the General Meeting based on its decision uniformly either for an indefinite period or for five years; in the latter case the mandate ends with the General Meeting concluding the fifth financial year following the election. The mandate of a member elected during this period expires together with the mandate of the Board of Directors.

The Board of Directors elects a Chairman and, may elect one or more Deputy Chairmen, from among its own members, whose period of office shall be equal to the mandate of the Board of Directors. The Chairman of the Board of Directors is also the Chief Executive Officer (Chairman & CEO) of the Company.

The membership of the Board of Directors ceases to exist by

a. expiry of the mandate,
b. resignation,
c. recall,
d. death,
e. the occurrence of grounds for disqualification as regulated by law.
f. termination of the employment of internal (executive) Board members.

The General Meeting has exclusive authority with respect to the following matters:

- the recall of members of the Board of Directors, the Supervisory Board and Audit Committee, and of the auditor; (qualified majority)
  More than one third of the members of the Board of Directors and the non-executive members of the Supervisory Board may be recalled within a 12-month period only if any shareholder holds more than 33% of the shares issued by the Company, which have been obtained by the shareholder by way of a public purchase offer.
- except in the cases referred by these Articles of Association to the authority of the Board of Directors, the establishment and amendment of the Articles of Association; (qualified majority); the General Meeting decides on proposals concerning the amendment of the Articles of Association – based on a resolution passed by shareholders with a simple majority – either individually or en masse.

The Board of Directors is exclusively authorised to make decisions regarding any change in the Company's name, registered office, permanent establishments and branches, and in the Company's activities – with the exception of its core activity – and, in relation to this, to modify the Articles of Association should it become necessary to do so on the basis of the Civil Code or the Articles of Association.

The Board of Directors is obliged to

- prepare the Company's financial statements in accordance with the Accounting Act, and make a proposal for the use of the profit after taxation;
- prepare a report once a year for the General Meeting, and once every three months for the Supervisory Board, concerning management, the status of the Company's assets and business policy;
- provide for the proper keeping of the Company's business books;
- perform the tasks referred to its authority under the Credit Institutions Act, in particular:
  - ensuring the integrity of the accounting and financial reporting system;
  - elaborating the appropriate strategy and determining risk tolerance levels for each business unit concerned;
  - setting risk assumption limits;
  - providing the necessary resources for the management or risk, the valuation of assets, the use of external credit ratings and the application of internal models.

The following, in particular, come under the exclusive authority of the Board of Directors:

- election of the Chairman & Chief Executive Officer of the Company, and exercising employer's right in respect thereof;
- election of one or more Deputy Chairmen of the Board of Directors;
- determination of the annual plan;
- the analysis and assessment of the implementation of business-policy guidelines, on the basis of the Company's quarterly balance sheet;
- decisions on transactions referred to the authority of the Board of Directors by the Company's organisational and operational regulations;
- decision on launching, suspending, or terminating the performance of certain banking activities within the scope of the licensed activities of the Company;
- designation of the employees entitled to sign on behalf of the Company;
- decision on the increasing of registered capital at the terms set out in the relevant resolution of the General Meeting;
- decision to acquire treasury shares at the terms set out in the relevant resolution of the General Meeting;
- decision on approving internal loans in accordance with the Credit Institutions Act;
- decision on the approval of regulations that fundamentally determine banking operations, or are referred to its authority by the Credit Institutions Act. The following shall qualify as such regulations:
  - the collateral evaluation regulations,
  - the risk-assumption regulations,
  - the customer rating regulations,
  - the counterparty rating regulations,
  - the investment regulations,
  - the regulations on asset classification, impairment and provisioning,

  - the organisational and operational regulations, which contain the regulations on the procedure for assessing requests related to large loans,
  - the regulations on the transfer of signatory rights;
- the decision on approving the Rules of Procedure of the Board of Directors;
- decision on steps to hinder a public takeover procedure;
- decision on the acceptance of a public purchase offer received in respect of treasury shares;
- decision on the commencement of trading in the shares in a regulated market (flotation);
- decision on the cessation of trading in the shares in a given regulated market, provided that the shares are traded in another regulated market (hereinafter: transfer).

The Board of Directors is exclusively authorised to:

- decide, in the cases specified in the Civil Code, on acceptance of the Company’s interim balance sheet, subject to the prior approval of the Supervisory Board;
- decide, instead of the General Meeting, to pay an advance on dividends, subject to the preliminary approval of the Supervisory Board;
- make decisions regarding any change in the Company’s name, registered office, permanent establishments and branches, and in the Company’s activities – with the exception of its core activity – and, in relation to this, to modify the Articles of Association should it become necessary to do so on the basis of the Civil Code or the Articles of Association;
- make decision on mergers (if, according to the provisions of the law on the transformation, merger and demerger of legal entities, the approval of the General Meeting is not required in order for the merger to take place).

The Board of Directors directly exercises employer's rights in respect of the Chairman & CEO. The person affected by a decision may not participate in the decision making. Employer rights in respect of the executive directors of the Company are exercised by the Board of Directors through the Chairman & CEO, with the proviso that the Board of Directors must be notified in advance of the appointment and dismissal of the Deputy CEOs. With regard to issues related to the exercising of employer's rights in respect of employees, the Company is represented by the Chief Executive Officer and by the senior company employees defined in the Organisational and Operational Regulations of the Company, in accordance with the delegation of authority approved by the Board of Directors.

The Board of Directors may delegate, to individual members of the Board of Directors, to executive directors employed by the Company, and to the heads of the individual service departments, any task that does not come under the exclusive authority of the Board of Directors in accordance with these Articles of Association or a General Meeting resolution.

The Company may acquire treasury shares in accordance with the rules of the Civil Code. The prior authorisation of the General Meeting is not required for the acquisition of treasury shares if the acquisition of the shares is necessary in order to prevent a direct threat of severe damage to the Company (this provision is not applicable in the event of a public purchase offer aimed at buying up the Company’s shares), as well as if the Company acquires the treasury shares in the context of a judicial procedure aimed at the settlement of a claim to which the Company is entitled, or in the course of a transformation.

The Company has not made agreements in the meaning of points (j) and (k) in paragraph 95/A of Act No. C of 2000 on Accounting.

Ownership structure of OTP Bank Plc.

as at 31 December 2017

Description of owner	Total equity					
	At the beginning of actual year			End of actual period		
	%[1]	%[2]	Qty	%[1]	%[2]	Qty
Domestic institution/company	20.20%	20.47%	56,561,346	20.06%	20.28%	56,171,016
Foreign institution/company	64.83%	65.71%	181,528,602	63.73%	64.42%	178,445,190
Domestic individual	4.42%	4.48%	12,364,400	3.92%	3.97%	10,988,183
Foreign individual	0.16%	0.16%	447,025	0.23%	0.23%	650,713
Employees, senior officers	0.79%	0.80%	2,214,853	0.80%	0.81%	2,250,991
Treasury shares[3]	1.33%	0.00%	3,737,768	1.07%	0.00%	3,009,046
Government held owner[4]	0.08%	0.08%	225,928	0.08%	0.08%	226,012
International Development Institutions[5]	0.02%	0.02%	49,715	0.03%	0.03%	70,502
Other[6]	8.17%	8.28%	22,870,373	10.07%	10.18%	28,188,357
TOTAL	**100.00%**	**100.00%**	**280,000,010**	**100.00%**	**100.00%**	**280,000,010**

[1] Ownership share. The data of Domestic individual and Employees, senior officers were revised for the beginning of actual year.
[2] Voting rights
[3] From 2Q 2017 treasury shares do not include the OTP shares held by ESOP.
[4] E.g.: State Privatization Holding Co. Ltd., Social Security, Municipality, 100% state-owned companies, Pension Reform and Debt Reduction Fund etc.
[5] E.g.: EBRD, EIB, etc.
[6] Non-identified shareholders according to the shareholders' registry.

Number of treasury shares held in the year under review (2017)

	1 January	31 March	30 June	30 September	31 December
OTP Bank	1,281,704	1,343,799	820,776	1,021,259	935,486
ESOP	382,504	382,504			
Subsidiaries	2,073,560	2,073,560	2,073,560	2,073,560	2,073,560
TOTAL	3,737,768	3,799,863	2,894,336	3,094,819	3,009,046

Shareholders with over/around 5% stake as at 31 December 2017

Name	Number of shares	Ownership	Voting rights
MOL (Hungarian Oil and Gas Company Plc.)	24,000,000	8.57%	8.66%
Megdet, Timur and Ruszlan Rahimkulov	23,738,672	8.48%	8.57%
OPUS Securities S.A.	14,496,476	5.18%	5.23%
Groupama Group	14,369,541	5.13%	5.19%

Committees

Members of the Board of Directors
Dr. Sándor Csányi– Chairman
Mr. Antal György Kovács
Mr. László Wolf
Mr. Mihály Baumstark
Dr. Tibor Bíró
Mr. Tamás Erdei
Dr. István Gresa
Dr. Antal Pongrácz
Dr. László Utassy
Dr. József Vörös

Members of the Supervisory Board
Mr. Tibor Tolnay – Chairman
Dr. Gábor József Horváth – Deputy Chairman
Mr. Dominique Uzel
Dr. Márton Gellért Vági
Mrs. Ágnes Rudas
Mr. András Michnai

Members of the Audit Committee
Dr. Gábor József Horváth – Chairman
Mr. Tibor Tolnay
Mr. Dominique Uzel
Dr. Márton Gellért Vági

The résumés of the committee and board members are available in the Corporate Governance Report/Annual Report.

Personal and organizational changes

In consideration of retirement the employment relationship of Antal Kovács, Deputy Chief Executive Officer, head of the Retail Division and internal member of the Board of Directors, was terminated by mutual agreement on 17 March 2017. According to the Act on Credit Institutions and Financial Enterprises, the internal membership of the Board of Directors was terminated at the time his employment was terminated.

Antal Kovács and OTP Bank Plc. concluded an employment contract for an indefinite duration from 20 March 2017 and based thereon Antal Kovács as a head of division and – as of the date of delivery of the permission of National Bank of Hungary – as the Deputy Chief Executive Officer (according to the Act on Credit Institutions and Financial Enterprises as managing director) will be the head of the Retail Division.

The Annual General Meeting elects Mr. György Antal Kovács as member of the Board of Directors of the Company until the Annual General Meeting of the Company closing the 2020 business year but not later than 30 April 2021.

The Annual General Meeting elects Mr. Tibor Tolnay Dr. Gábor Horváth, Mr. András Michnai, Mrs. Ágnes Rudas, Mr. Dominique Uzel and Dr. Márton Gellért Vági as members of the Supervisory Board of the Company until the Annual General Meeting of the Company closing the 2019 business year but not later than 30 April 2020.

The Annual General Meeting elects Dr. Gábor Horváth, Mr. Tibor Tolnay Mr. Dominique Uzel and Dr. Márton Gellért Vági as members of the Audit Committee of the Company until the Annual General Meeting of the Company closing the 2019 business year but not later than 30 April 2020.

The Annual General Meeting elects concerning the audit of OTP Bank Plc.'s separate and consolidated annual financial statements in accordance with International Financial Reporting Standards for the year 2017, the Annual General Meeting is electing Deloitte Auditing and Consulting Ltd. (000083, H-1068 Budapest, Dózsa György út 84/c) as the Bank's auditor from 1 May 2017 until 30 April 2018.

Based on the decision of the Board of Directors Mr. György Kiss-Haypál, Chief of Credit Approval and Risk Management Division, was appointed as Deputy Chief Executive Officer – possessing the necessary permissions – from 3 May 2017.

Operation of the executive boards

OTP Bank Plc. has a dual governance structure, in which the Board of Directors is the Company's executive body, while the Supervisory Board performs oversight tasks. The effective operation of Supervisory Board is supported by the Audit Committee.

In order to assist the performance of the governance functions the Board of Directors founded and operates, as permanent or special committees, such as the Management Committee, the Management Coordination Committee or the Remuneration Committee, the Nomination Committee and the Risk Assumption and Risk Management Committee. To ensure effective operation OTP Bank Plc. also has a number of other permanent and special committees.

OTP Bank Plc. gives an account of the activities of the executive boards and the committees every year in its Corporate Governance Report.

The Board of Directors held 6, the Supervisory Board held 9 meetings, while the Audit Committee gathered 3 times in 2017. In addition, resolutions were passed by the Board of Directors on 98, by the Supervisory Board on 37 and by the Audit Committee on 21 occasions by written vote.

Policy of diversity

OTP Bank Plc. determines and regulates the criteria for the selection of senior executives in line with European Union as well as domestic legal requirements and directives fundamentally determining the operation of credit institutions.
When designating members of the management bodies (Board of Directors, Supervisory Board) as well as appointing members of the Board of Directors and administrative members (Management), OTP Bank Plc. considers the existence of professional preparation, the high-level human and leadership competence, the versatile educational background, the widespread business experience and business reputation of the utmost importance, at the same time, it is also highly committed to taking efficient measures in order to ensure diversity with regard to corporate operation, including the gradual improvement in women's participation rate.

With this in mind, OTP Bank Plc.'s Nomination Committee continuously keeps tracking the European Union and domestic legislation relating to women's quota on its agenda, in that when unambiguously worded expectations are announced, it promptly takes the necessary measures.

It is important to note, however, that, as a public limited company, the selection of the members of the management bodies falls within the exclusive competence of the General Meeting upon which – beyond its capacity to designate enforcing the above aspects to maximum effect – OTP Bank Plc. has no substantive influence.

For the purposes of OTP Bank Plc.'s Articles of Association, a Board of Directors comprising 5-11 members and a Supervisory Board comprising 5-9 members are set up at the Bank. The Board of Directors in its current form operates with 10 members and has no female member, while the Supervisory Board comprises 6 members and has one female member as of 15 April, 2016. The management of OTP Bank Plc. currently comprises 6 members and has no female member.

ENVIRONMENTAL POLICY, ENVIRONMENTAL PROJECTS

OTP Group reports on its social, environmental and wider economic impacts and performance primarily in its Sustainability Report. Information on these matters is also included in the Business Report in order to comply with the relevant provisions in the Accounting Act, while also adhering to the principle of keeping the duplication of information to the minimum. The Sustainability Report for 2017 will be a group-level report that meets the GRI (Global Reporting Initiative) Standard and is certified by an independent third party; it will be available on OTP Bank's website (https://www.otpfenntarthatosag.hu/hu/jelentesek).

Commitment to society

Responsible financial services

As a financial service provider OTP Bank's goal is to create added value for its customers, be it the availability, compatibility or the simple and safe usability of tools and products. We give priority to maintaining the stability of the Banking Group and to providing services that are secure for our customers in all aspects. We shape our risk management principles and practices in accordance with the criteria of responsible lending. Our loan assessment system helps avoid over-indebtedness. We invest and lend the money deposited with us in a manner that ensures its repayment and does not serve purposes that are illegal or contrary to the values of our society. This delicate balance is maintained by:

– our strict *Risk Management Policy*,
– our annually revised *Lending Policy*,
– our continuously updated *credit approval system*.

In 2017, our debtor protection programs remained available to customers facing payment difficulties. In addition to assistance programs by the state, we continue to provide the option of programs developed by the Group.

With an eye to the strategic goal of customer focus we consider it of utmost importance to provide our customers with ever more convenient and enjoyable services at a high standard of quality. OTP Group's clear objective is to serve its customers in an error-free manner. Our *Complaint Management Regulation* is available to view in our branches and on our website.

Customer complaint features, OTP Bank*	2017
Number of warranted complaints	97,780
Proportion of warranted complaints	33%
Compensation paid (HUF million)	235
Amount of compensation per warranted complaint (HUF)	2,403

* Also includes data for OTP Lakástakarék and OTP Jelzálogbank.

Accessibility

OTP Bank developed a complex accessibility strategy regarding how to treat and inform customers with special needs. We are constantly improving accessibility by relying on the expertise of our branch employees, the feedback from the customers concerned and our cooperation with independent non-governmental organizations. Physical accessibility is provided in all but one of our branches[8]. Our branch queue management system offers the option to request special services for persons with reduced mobility or persons who are deaf or hard-of-hearing, blind or partially-sighted. At the moment 133 branches (35%) have tactile indicators or doming to help the visually impaired with orientation; the roll-out of these features is continuous. Induction loop amplifier systems are available in 32% of all branches, and 35 high-traffic branches have employees who can serve customers using sign language. 72% of our ATMs are wheelchair-accessible. We are testing a text-to-speech function for our ATMs and plan to roll it out to 150 ATMs in 2018.

Community Involvement

Historically, OTP Bank has been among the largest donors in Hungary. In 2017 we donated a total of HUF 1,828 million. For several years now, we have focused our efforts on:

– developing financial literacy, attitude-shaping;
– creating equal opportunities: helping the disadvantaged and those in need;

[8]Accessibility is not feasible at one branch due to the characteristics of its building and environment.

- sponsoring culture and the arts: creating and preserving values; and
- sports.

The main objective of our donation efforts is to provide genuine and effective help by supporting programs and causes that serve the interests of society as a whole. In order to use resources efficiently and productively, we work with local non-governmental organizations, are committed to long-term cooperation, concentrate our donated funds and monitor how they are used and with what results.

OTP Bank attaches particular importance to its CSR programs implemented via its foundations; the professionalism and result-orientation of these programs meet the standard expected by the Company. The Humanity Social Foundation is active in the field of social issues, while the OTP Fáy András Foundation is responsible for financial and economic education. In 2017 the Foundation's OK Centre trained nearly 17,000 students in approximately 1300 free training groups. The high standard of education at the Centre earned the OK Project a certificate of excellence from KOKOA of Finland.

Responsible employment

Our employees play a key role in OTP Bank's success, and our Bank is therefore committed to creating and retaining a pool of talented and committed employees. Ethical and compliant behaviour constitute the basic principles in our human resource management. OTP Bank's *Collective Agreement* sets out the rights and obligations of it employees. The interests of employees are represented by their trade union. In its *Code of Conduct*, our Bank declares its commitment to providing a safe and healthy working environment and states its expectation of mutual respect between managers and employees, including the prohibition of discrimination and harassment.

OTP Bank's employees (31 December 2017)	Total	Men	Women
Employees, total (no. of persons)*	8,107	2,299	5,808
Distribution by gender:	100%	28%	72%
Fluctuation ratio**	13%	12%	14%

* Active employees on an employment contract (persons)
** compared to the end-of-year headcount; includes termination of employment both by employee and employer, as well as retirement

As the expertise of our employees is our most valuable asset, we treat the training and education of our staff as a high priority. Besides professional knowledge, we also support management skills and improve the transparency of career opportunities. We encourage our talented and committed employees by setting individual career targets and rewarding their performance with competitive remuneration. We consistently employ the principle of "equal pay for equal work". Our Bank lays special emphasis on preventive health within and outside the workplace, offering a complex health insurance package and subsidizing recreation and sports.

Environmental protection

Environmental protection principles

OTP Group is committed to the protection of the environment and the preservation and low-impact use of natural resources. OTP Bank's environmental activities are regulated in its *Environmental Policy*. The Policy safeguards compliance with the law and stipulates the voluntary commitment and responsibility of protecting the environment. Its aim is to consider environmental criteria and their integration into the Bank's business operations in order to minimize the environmental impacts of operating and maintaining the Bank's organization. The Policy also sets out the rules on how to enforce the principles of sustainable procurement.

The Group does not finance transactions that do not meet environmental requirements. The availability of the required permits and authorizations and compliance with their provisions is always verified by external consultants; thereafter the Bank's monitoring activity provides for compliance. The long-term sustainability of environmental impacts is taken into consideration as a subjective factor in the rating of large corporate clients.

OTP Group members operate in full compliance with environmental legislation and received no fines in 2017 either.

OTP Group's main environmental protection aims are to improve its energy efficiency and to reduce the amount of paper it uses.

Energy consumption and business travel

OTP Group uses state-of-the-art technology in new construction and renovation projects.

OTP Bank regularly refurbishes its heating centers, with energy efficiency as a primary criterion. It has employed heat recovery ventilation for several years and is expanding its use of LED lighting . In continuation of earlier development work, we started to install LED lighting in branch interiors in 2017: we refurbished the lighting systems in 12 branches by the end of the year and plan to do the same in 9 other branches in 2018. OTP Bank's new head office building will have LEED Gold certification. In 2017, our subsidiaries in Ukraine and Serbia expanded the use of LED technology in several locations.

We are intensifying our reliance on renewable energy due to financial considerations. OTP Bank's entities in Hungary operate solar panels of a total size of 460 m^2; we have scheduled a pilot to install solar panels on a branch in 2018. The central archives facility owned by Monicomp Zrt has been using geothermal energy for several years. In 2017, OTP banka Hrvatska of Croatia expanded its solar panel network in Pula; in that year, it used as much as 40 MWh of solar power. The subsidiary continues to investigate options for expanding its solar panel systems.

The number of business trips and the size of the vehicle fleet is shaped by the changes in business activities, and it is our practice to plan all trips on a rational basis. We plan to introduce into our Vehicle Policy certain carbon-dioxide limits applicable to new vehicles. Our Croatian subsidiary supported the installation of two electric car charging stations in 2017 and plans to participate in financing further charging stations.

OTP Group is exploiting the possibilities of video conferencing more and more each year. More video conference rooms were added in Hungary and at our Croatian, Russian and Slovakian subsidiaries in 2017. We continue adding new bicycle stands for our customers and employees; in 2017. we did so at the subsidiaries in Bulgaria and Ukraine.

We present the energy consumption figures of OTP Bank. The Bank's overall energy consumption did not change as compared to the previous year. Alongside the implementation of energy-efficient solutions, there has been an expansion in functions that consume energy (e.g. additional digital processes, more brightly lit workplaces, air conditioners, water dispensers).

Energy consumption quantities, OTP Bank	2017
Total energy consumption (GJ)	254,641
Per-capita energy consumption (GJ)	31.98

Energy consumption data are derived from readings; the measured consumption quantities are converted to energy at the local average calorific values. The projection basis for the per-capital figure is the average statistical headcount

Working to reduce paper use

OTP Group set itself the task of reducing paper use and printing both in internal processes and as regards the documents and account statements delivered to customers. But legislative requirements and the expansion of our business has often counteracted this objective. The digital signature pads introduced widely at OTP Bank in 2017 helped prevent paper use and enabled online application for yet more products. Our Croatian subsidiary reduced its paper use by nearly 7% as compared to the previous year; this was greatly facilitated by the introduction of centralized printing in its head office buildings.

Paper usage quantities, OTP Bank	2017
Total paper quantities (t) (office, packaging, indirect)	957
Per capita paper use (kg)*	120

* The projection basis is the average statistical headcount.

OTP Bank has used recycled paper for its account statements and marketing publications for years, and some of its office paper consumption is also recycled. Our aim is to increase the proportion of the latter in the near future. The Croatian subsidiary has used recycled paper almost exclusively for several years, and the Ukrainian subsidiary is investigating options for implementing this practice.

Sustainable use and waste management

We follow a principle of using all our equipment, devices and machines for the reasonably longest possible time. Mindful of the priorities in waste management and the relevant financial considerations, we explicitly aim to use furniture up to the end of their lifecycle, using them multiple times and ensuring interchangeability. OTP Bank, DSK Bank, OTP Bank Romania and OTP banka Srbija all follow the practice of making charitable donations of any furniture no longer used but in good condition, alongside functioning IT equipment (mostly computers and laptops) to institutions and organizations in need. OTP Bank donated a total of 516 computers in 2017. Our Slovakian subsidiary also donated smaller pieces of furniture to charity.

The subsidiaries in Montenegro and Slovakia use toner refills to reduce toner and ink cartridge waste. The Russian subsidiary plans to launch toner refill pilot starting in 2018.

There were no changes in waste collection at the Group in 2017. All members of OTP Group collect and manage hazardous waste and paper with business secrets selectively, in compliance with the law. OTP Bank provides selective collection of non-confidential paper waste and PET bottles at its head office buildings. The Croatian subsidiary has collected waste selectively for years, whereas the Slovakian subsidiary provides selective waste collection wherever locally facilitated by the municipality. DSK Bank operates selective waste collection at its sites in Sofia and Varna. The Romanian subsidiary offers selective collection of paper in its head office building.

Attitude shaping

Several members of our Banking Group have a tradition of raising awareness and joint action to protect environmental and natural resources.

- OTP Bank has been joining the WWF’s Earth Hour initiative for years. In 2017, we helped the Hungarian Hikers' Association popularize hiking.
- The head office of DSK Bank has been active for years in the national PET bottle cap collection scheme; the caps are used for producing wheelchairs. In 2017 the bank took part in the Cycle2Work initiative organized by the Sofia Urban Mobility Centre. For a period of six weeks, the bank’s employees used nine bicycles of the Centre, thus raising awareness and helping improve city air.
- The Slovakian subsidiary planted 273 trees to partially offset its paper use (one tree for every 50 packs of paper purchased). The Bank has also joined “Our City”, a volunteering project to improve the urban environment.
- On the occasion of World Car Free Day, the Romanian subsidiary encouraged its employees to choose an alternative mode of transport. It also announced a 30-day competition to reduce the reliance on cars. The Bank has employed stickers and posters to encourage its employees to behave in environmentally friendly and healthy ways.
- Twice a year, CKB of Montenegro has traditionally taken part in nationwide forestation and environmental protection campaigns.
- Our affiliate in Serbia sends regular e-mails to its employees to advocate environmental awareness.

Risks

OTP Bank analyses and manages the risks pertaining to environmental protection, employment, the respect of human rights and the fight against corruption and bribery within its operational risk management process. Risk management is decentralized; risks are managed by the organizational units where the risks emerge. Potential risks are identified by self assessment. The Group Operational Risk Management Committee decides any risk mitigation measures and orders further investigations. Risk mitigation measures are monitored and verified on a quarterly basis.

NON-FINANCIAL STATEMENT – OTP BANK PLC. (SEPARATE)

The description of the company's policy on environmental protection, social and employment issues, respect for human rights, anti-corruption and bribery, as well as certain non-financial performance indicators can be found in the Environmental policy, environmental projects section.

The business model of the company

OTP Bank is the market-leading credit institution in Hungary. As for its business model, the Bank offers high-quality financial services to retail, private banking, micro and small business, medium and large corporate, as well as municipality clients through both its own physical network and its steadily developing digital channels. The Bank renders comprehensive retail and corporate banking services: its activities include deposit collection from customers and raising money from the money and capital markets. On the asset side, OTP Bank offers mortgage loans, consumer credits, working capital and investment loans to companies, as well as loans to municipalities, whereas its liquidity reserves are invested in money and capital market instruments. Moreover, the Bank provides a wide range of state-of-the-art services, including the areas of wealth management, investment services, payment services, treasury and other services.

In addition, OTP Bank's Hungarian subsidiaries deliver a wide range of further financial services. The Bank owns foreign subsidiaries in many countries of Central and Eastern Europe through capital investments.

Fight against corruption and against the practice of bribery

The Code of Ethics of OTP Bank contains separate chapters on the fight against corruption and against the practice of bribery, also on the acceptance of individual differences and the denial of discrimination (https://www.otpbank.hu/portal/en/EthicalDeclaration, https://www.otpbank.hu/static/portal/sw/file/OTP_EtikaiKodex_EN.pdf). As it can be read in the foreword of the Code, the Bank and its management have adopted the principle of zero tolerance towards corruption and bribery, taking a definite stance against all forms of corruption and giving full support to the fight against corruption. In addition, the Code states that "As an ethical and compliant institution, the Bank and its management are fully committed to ensuring observance of all relevant legislation, including anti-corruption statutes.".

The Bank has set up an ethics reporting system (whistleblowing), which is for the reporting and the handling of the reports on suspected or actual violation of the values set forth in the Code of Ethics, where anonymous reporting of ethics issues is also possible. The Bank conducts inquiries for the purpose of detecting, preventing anomalies in connection with reports made or anomalies it became aware of otherwise.

Through the Bank's ethics reporting system a total of 15 reports were received in 2017, out of which one case's investigation resulted in declaring ethics offense – though not due to corruption, bribery or discrimination.

The Bank has created and maintains its Code of Ethics to keep reputational risk and financial losses, which may incur in relation to corruption, bribery and discrimination, on a minimum level. Both employees and newcomers receive education on the Code of Ethics, and in addition, the acceptance to be bound by it is a prerequisite for their employment.

Non-financial performance indicators

- Internal audit: 173 closed investigations, 1,470 accepted proposals;
- Compliance with Budapest Stock Exchange (BSE) Recommendations (yes/no ratio): 130 yes, 21 no;
- Compliance: 4 audits, 2,105 reports due to suspicion of money laundering;
- Bank security: expected damages arising from crimes detected: HUF 1,103.9 million, prevented damages: HUF 1,779.2 million; reported charges: 3,211; the ratio of bank card abuses to the turnover is much lower than the European average (OTP Bank 0.0078%, European average 0.0433%);
- Ethics issues: 15 ethics reports, establishing ethics offense in 1 case.

LIST OF NON-AUDIT SERVICES BY SERVICE CATEGORIES USED BY THE BANK

Deloitte Auditing and Consulting Ltd. provided the following services to OTP Bank Plc. during 2017:

- Testing of controls (and/or IT controls) that have already been designed and implemented;
- Consultation relating to interpretation and implementation of accounting standards;
- Trainings relating to changes in accounting regulations and professional interpretations;
- Engagements to perform agreed-upon procedures regarding financial information;
- Assurance engagements other than audits or reviews of historical financial information.

SUPPLEMENTARY DATA

RESTATEMENT OF CERTAIN ITEMS IN THE STATEMENT OF FINANCIAL POSITION

According to the announcement made by OTP Bank Plc. on 28 June 2017 the share swap agreement between OTP Bank Plc. and MOL Plc. has been amended. Taking into account the economic substance of the deal and the amendment of certain elements of the contract, in order to show a full and reliable picture, the Bank decided to account for the deal on a net base, which provides a better reflection of the deal's economic substance, rather than booking it on a gross base. Pursuant to the change, the MOL shares (previously booked on the trading securities balance sheet line) and the related financial liabilities have been netted off. Consequently, only the net fair value of the share swap deal is presented in the balance sheet.

The consolidated balance sheet and the balance sheet of OTP Bank and OTP Core were affected by the change. As a result of the above mentioned decision, the balance sheets for the 2016 base period have been restated. The restatement was neutral on the shareholders' equity and the statement of profit and loss.

Affected balance sheet lines were as follows: Financial assets at fair value through profit and loss, Other assets, Total assets, Other liabilities, Total liabilities, Total liabilities and shareholders' equity. Consequently, performance indicators with total assets in their denominators changed retroactively for 2016.

Affected performance indicators were as follows: ROA (from adjusted net earnings), Operating profit margin, Total income margin, Net interest margin, Net fee and commission margin, Net other non-interest income margin, Cost-to-asset ratio, Total risk cost-to-asset ratio, Leverage.

The restatement affected the separate regulatory capital of OTP Bank Plc. and the consolidated regulatory capital, and thus the capital adequacy ratios, too, through the Prudential filters which is part of the Common Equity Tier 1 capital. The restated consolidated regulatory capital and capital adequacy ratios have been presented for 2016. (The restatement did not affect the separate regulatory capital of OTP Bank under Hungarian Accounting Standards at the end of 2016.)

ADJUSTMENTS OF THE CONSOLIDATED IFRS BALANCE SHEET LINES

Starting from 3Q 2017, in the adjusted balance sheets presented in the analytical section of this Report the total amount of accrued interest receivables related to DPD90+ loans were netted with the provisions created in relation to the total exposure toward those particular clients, in case of the affected Group members. Therefore, this adjustment made on the accounting balance sheet has an impact on the consolidated gross customer loans and allowances for loan losses.

	2017 HUF million
Gross customer loans (incl. accrued interest receivables related to loans)	7,726,631
(-) Accrued interest receivables related to DPD90+ loans	36,212
Gross customer loans (adjusted)	7,690,419
Allowances for loan losses	(738,797)
(-) Allocated provision on accrued interest receivables related to DPD90+ loans	(36,212)
Allowances for loan losses (adjusted)	(702,585)

FOOTNOTES TO THE TABLE 'CONSOLIDATED NET PROFIT BREAKDOWN BY SUBSIDIARIES (IFRS)'

General note: regarding OTP Core and other subsidiaries, profit after tax is calculated without received dividends and net cash transfers (and other adjustment items). Dividends and net cash transfers received from non-group member companies are shown on a separate line in one sum in the table, regardless to the particular receiver or payer group member company.

(1) OTP Core, Corporate Centre and foreign banks aggregated, excluding one-timers.

(2) OTP Core is an economic unit for measuring the result of core business activity of OTP Group in Hungary. Financials of OTP Core are calculated from the partially consolidated IFRS financial statements of certain companies engaged in OTP Group's 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; OTP Bank Employee Stock Ownership Plan Organization was included from 4Q 2016; OTP Card Factory Ltd., OTP Facility Management Llc., MONICOMP Ltd. and OTP Real Estate Lease Ltd. were included from 1Q 2017. The consolidated accounting results of these companies are segmented into OTP Core and Corporate Centre. Latter is a virtual entity.

(3) Within OTP 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 OTP 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 Bank 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.

(4) From 1Q 2015 the performance of OTP Bank Russia does not contain the volumes and financial result of Touch Bank. From 1Q 2015 the statement of profit or loss and balance sheet of LLC MFO "OTP Finance" was included in the Russian performance.

(5) Touch Bank is part of OTP Bank Russia from legal point of view, and it is operating under the same banking license, but as a separate digital banking business line. In order to provide transparent information Touch Bank is presented as a separate virtual entity.

(6) From 4Q 2008 figures are based on the aggregated financial statements of OTP Bank JSC and LLC OTP Leasing Ukraine, from 4Q 2009 the result of LLC OTP Factoring Ukraine was also aggregated.

(7) From 3Q 2010 the result and balance sheet of OTP Factoring Bulgaria LLC was included. DSK Group balance sheet contains the loans sold to the factoring company at before sale gross value and the related provisions, as well.

(8) Net earnings are adjusted with the result of CIRS swap transactions executed with OTP Bank Hungary in relation to interbank financing. Before transfer balance sheet numbers are displayed. From 2Q 2010 the statement of profit or loss and balance sheet of OTP Faktoring SRL was included. Banca Millennium was consolidated into OBR's results from 1Q 2015.

(9) Including the financial performance of OTP Factoring Serbia d.o.o from 4Q 2010. Vojvodjanska banka has been consolidated from 4Q 2017.

(10) Splitska banka was consolidated into OBH's results from 2Q 2017. Banco Popolare Croatia was consolidated into OBH's results from 2Q 2014. From 1Q 2015 including the financial result and volumes of OTP Faktoring d.o.o.

(11) From 2012 on P&L data and related indices are adjusted for the special banking tax and the Slovakian Deposit Protection Fund contributions being introduced again in 2014, as well as the contribution into the Resolution Fund.

(12) Including the financial performance of OTP Factoring Montenegro d.o.o.

(13) Aggregated after tax profit of Merkantil Bank and Merkantil Car without dividends, net cash transfer, other adjustment items and provisioning for investments in subsidiaries.

(14) OTP Leasing Romania IFN S.A. (Romania), OTP Leasing d.d. and SB Leasing d.o.o. (Croatia), DSK Leasing AD (Bulgaria), OTP Lizing d.o.o, OTP Services d.o. (Serbia).

(15) LLC AMC OTP Capital (Ukraine) and OTP Asset Management SAI S.A. (Romania), DSK Asset Management (Bulgaria).

(16) OTP Buildings s.r.o. (Slovakia), OTP Real Slovensko s.r.o. (Slovakia), Velvin Ventures Ltd. (Belize), Debt Management Project 1 Montenegro d.o.o. (Montenegro), R.E. Four d.o.o., Novi Sad (Serbia), SC Aloha Buzz SRL, SC Favo Consultanta SRL, SC Tezaur Cont SRL (Romania), Cresco d.o.o. (Croatia), OTP Osiguranje d.d. (Croatia).

(17) Total Hungarian subsidiaries: sum of the adjusted after tax results of Hungarian group members, Corporate Centre and related eliminations.

(18) Total Foreign subsidiaries: sum of the adjusted after tax profits of foreign subsidiaries and one-off items (after tax).

CALCULATION OF ADJUSTED LINES OF IFRS PROFIT OR LOSS STATEMENTS PRESENTED IN THE BUSINESS REPORT

In order to present Group level trends in a comprehensive way in the Report, the presented consolidated and separate profit and loss statements of this report were adjusted in the following way, and the adjusted P&Ls are shown and analysed in the Report. Consolidated accounting figures together with Separate accounting figures of OTP Bank are still disclosed in the Supplementary Data section.

Adjustments:

- The after tax effect of adjustment items (certain, typically non-recurring items from banking operations' point of view) are shown separately in the Statement of Profit or Loss. The following adjustment items emerged in the presented periods: received dividends, received and paid cash transfers, the effect of goodwill/investment impairment charges, special tax on financial institutions, the impact of fines imposed by the Hungarian Competition Authority, the effect of acquisitions, the corporate tax impact of switching to IFRS from HAR in Hungary, revaluation of deferred taxes recognized in the P&L due to the corporate tax rate cut in Hungary, and the gain on the sale of Visa Europe shares. Beside the Slovakian banking levy, the total amount of the special banking tax includes and the Slovakian Deposit Protection Fund contributions being introduced again in 2014, and the contribution into the Resolution Fund in Slovakia, too. The special banking tax, however, does not include the special tax levied on the result of investment services in the year of 2017 in Hungary, this item is presented among the operating expenses.
- Other non-interest income elements stemming from provisioning release in connection with provisions on loans originated before the acquisitions of the subsidiaries have been reclassified to and deducted from the volume of provisions for possible loan losses in the income statement.
- Other non-interest income is shown together with gains/losses on real estate transactions, but without the above mentioned income from the release of pre-acquisition provisions and without received cash transfers. However other non-interest expenses stemming from non-financial activities are added to the adjusted net other non-interest income line, therefore the latter incorporates the net amount of other non-interest income from non-financial activities.
- From 4Q 2016 certain components of the result on derivative instruments have been presented on a separate line in the accounting P&L structure: on the Gains and losses on derivative financial instruments line (certain other components were continued to be booked on the net interest income and foreign exchange result line). In the previous accounting and adjusted P&L structure, items currently booked on the Gains and losses on derivative financial instruments line were accounted for on the net interest income, foreign exchange result and gains/losses on securities line. In 4Q 2016 the full annual amounts have been moved in one sum to the Gains and losses on derivative financial instruments line. In the adjusted P&L structure this new line constitutes part of the Net other non-interest result among Other net non-interest income.
- From 2Q 2014 OTP Bank's share in the change in the shareholders' equity of companies consolidated with equity method is reclassified from the After tax dividends and net cash transfers line to the Net other non-interest result (adj.) without one-offs line. Furthermore, received cash transfers within the framework of the subsidy programme targeting the expansion of POS network in Hungary in 3Q 2017 were reclassified from the After tax dividends and net cash transfers line to the Net other non-interest result (adj.) without one-offs line.
- Out of other expenses, other provisions are deducted and shown separately as other risk costs in the adjusted income statement. Other provisions contain provisioning on off-balance sheet liabilities and on legal contests, provisioning on securities, shares and other investments as well as provisioning on other assets.
- Other administrative expenses have been adjusted in the following way in order to create a category comprising administrative cost items exclusively. Other costs and expenses and other non-interest expenses were included into the adjusted Other non-interest expenses. At the same time, the following cost items were excluded from adjusted other non-interest expenses: paid cash transfers – except for movie subsidies and cash transfers to public benefit organisations –, Other other non-interest expenses stemming from non-financial activities, and special tax on financial institutions.
- Tax deductible transfers (offset against corporate taxes) paid by Hungarian group members from 3Q 2012 were reclassified from Other non-interest expenses to Corporate income tax. As a result, the net P&L effect of these transfers (i.e. the paid transfer less the related corporate tax allowances) is recognised in the corporate income tax line of the adjusted P&L. The amount of tax deductible transfers offset against the special tax on financial institutions is shown on a net base on the special tax on financial institutions line.
- The financial transaction tax paid from the beginning of 2013 in Hungary is reclassified from other (administrative) expenses to net fee and commission income, both on consolidated and OTP Core level.
- The *Net insurance result* line which appeared in the consolidated accounting P&L structure from 3Q 2017 is presented on the *Net other non-interest result* line within the *Other net non-interest income* in the adjusted P&L structure.
- OTP Group is hedging the revaluation result of the FX provisions on its FX loans and interest claims by keeping hedging open FX positions. In the accounting statement of profit or loss, the revaluation of FX provisions is part of the risk costs (within line "Provision for loan losses"), other provisions and net interest income lines, whereas the revaluation result of the hedging open FX positions is made through other non-interest income (within line "Foreign exchange result, net"). The two items have the same absolute amount but an opposite sign. As an adjustment to the accounting statement of income, these items are eliminated from the adjusted P&L. By modifying only the structure of the income statement, this correction does not have any impact on the bottom line net profits.

- The Compensation Fund (established in Hungary in order to indemnify the victims of Quaestor and Hungarian Securities Ltd.) contributions booked from 1Q 2017 are recognized on the Other administrative expenses line of the accounting income statement, and are presented on the Special tax on financial institutions line and the financial transaction tax in the adjusted P&L structure.
- In case of OTP Banka Slovensko and OTP Bank Romania the total revaluation result of intra-group swap deals – earlier booked partly within the net interest income, but also on the Foreign exchange gains and Net other non-interest result lines within total Other non-interest income – is presented on a net base on the net interest income line starting from 1Q 2016.
- Starting from 3Q 2016 the Ukrainian subsidiary started to calculate interest revenues based on net loan volumes. This resulted in a one-off structural correction between the net interest income and provision for loan losses in 3Q 2016.
- Performing indicators (such as cost/income ratio, net interest margin, risk cost to average gross loans as well as ROA and ROE ratios) presented in this report are calculated on the basis of the adjusted profit and loss statement excluding adjustment items (unless otherwise indicated). Adjustment items include received dividends and net cash transfers, the effect of goodwill/investment impairment charges, special tax on financial institutions, the impact of fines imposed by the Hungarian Competition Authority, the effect of acquisitions, the corporate tax impact of switching to IFRS from HAR in Hungary, the revaluation of deferred taxes recognized in the P&L due to the corporate tax rate cut in Hungary, and the gain on the sale of Visa Europe shares.
- Within the report, FX-adjusted statistics for business volume developments and their product breakdown are disclosed, too. For FX adjustment, the closing cross currency rates for the current period were used to calculate the HUF equivalent of loan and deposit volumes in the base periods. Thus the FX adjusted volumes will be different from those published earlier.

ADJUSTMENTS ON THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (IFRS)

	2016 HUF million	2017 HUF million
Net interest income	**519,729**	**553,755**
(-) Revaluation result of FX provisions	823	190
(+) Presentation of the revaluation result of intra-group swaps on the net interest income line realized at the Romanian and Slovakian operations	(440)	(103)
(+) Structural correction affecting Ukrainian interest revenues and provision for loan losses in 3Q 2016	3,484	0
(-) Netting of interest revenues on DPD90+ loans with the related provision (booked on the Provision for loan losses line) at OTP Core		5,961
(-) Effect of acquisitions		847
Net interest income (adj.)	**521,949**	**546,654**
Net fees and commissions	**222,991**	**261,193**
(+) Financial Transaction Tax	(47,025)	(51,770)
(-) Effect of acquisitions		(5
Net fees and commissions (adj.)	**175,966**	**209,428**
Foreign exchange result	**29,305**	**16,579**
(-) Revaluation result of FX positions hedging the revaluation of FX provisions	16,804	(4,350)
(-) Presentation of the revaluation result of intra-group swaps on the net interest income line realized at the Romanian and Slovakian operations	(765)	(814)
(-) Effect of acquisitions		122
Foreign exchange result (adj.)	**13,266**	**21,622**
Gain/loss on securities, net	**20,828**	**7,930**
(-) Gain on the sale of Visa Europe shares	15,924	0
Gain/loss on securities, net (adj.) with one-offs	**4,904**	**7,930**
(-) Revaluation result of the treasury share swap agreement (booked as Gain on securities, net (adj) at OTP Core)	(751)	862
Gain/loss on securities, net (adj.) without one-offs	**5,655**	**7,068**
Gains and losses on real estate transactions	**1,923**	**2,093**
(+) Other non-interest income	**17,704**	**62,968**
(+) Gains and losses on derivative financial instruments	**6,838**	**5,291**
(+) Net insurance result		**410**
(-) Received cash transfers	37	584
(+) Received cash transfers within the framework of the subsidy programme targeting the expansion of POS network in Hungary		560
(-) Non-interest income from the release of pre-acquisition provisions	735	9,750
(+) Other other non-interest expenses	(29,221)	(9,666)
(+) Change in shareholders' equity of companies consolidated with equity method	(163)	413
(-) Effect of acquisitions	0	32,271
(-) Presentation of the revaluation result of intra-group swaps on the net interest income line realized at the Romanian and Slovakian operations	325	712
(-) One-off impact of regulatory changes related to CHF consumer contracts in Croatia	(9,068)	(54)
(-) One-off impact of the CHF mortgage loan conversion programme and regulatory changes related to mortgage loans in Romania	(18,347)	(363)
(-) Impact of fines imposed by the Hungarian Competition Authority	3,922	194
(-) Netting of refunds related to legal cases (accounted for on the Net other non-interest result line) with the release of provisions created earlier for these cases (accounted for on the Other provisions line) from 1Q 2017 at OTP Bank Romania		(1,200)
Net other non-interest result (adj.) with one-offs	**19,478**	**20,175**
(-) Gain on the repurchase of own Upper and Lower Tier2 Capital (booked as Net other non-interest result (adj) at OTP Core and at the Corporate Centre)	0	0
Net other non-interest result (adj.) without one-offs	**19,478**	**20,175**
Provision for loan losses	**(93,472)**	**(40,848)**
(+) Non-interest income from the release of pre-acquisition provisions	735	9,750
(-) Revaluation result of FX provisions	(17,648)	4,144
(-) Expected one-off impact of regulatory changes related to CHF consumer contracts in Croatia	(574)	0
(-) Expected one-off impact of the CHF mortgage loan conversion programme and regulatory changes related to mortgage loans in Romania	(4,776)	1,777
(+)Structural correction affecting Ukrainian interest revenues and provision for loan losses in 3Q 2016	(3,484)	0
(+) Netting of interest revenues on DPD90+ loans with the related provision (booked on the Provision for loan losses line) at OTP Core		5,961
Provision for loan losses (adj.)	**(73,223)**	**(31,058)**
Dividend income	**3,054**	**4,152**
(+) Received cash transfers	37	584
(+) Paid cash transfers	(13,131)	(11,496)
(-) Sponsorships, subsidies and cash transfers to public benefit organisations	(13,130)	(11,495)
(-) Received cash transfers within the framework of the subsidy programme targeting the expansion of POS network in Hungary		560
(-) Dividend income of swap counterparty shares kept under the treasury share swap agreement	2,841	3,082
(-) Change in shareholders' equity of companies consolidated with equity method	(163)	413
After tax dividends and net cash transfers	**412**	**680**
Depreciation	**(44,428)**	**(49,493)**
(-) Effect of acquisitions		(2,507)
Depreciation (adj.)	**(44,428)**	**(46,482)**
Personnel expenses	**(191,443)**	**(213,886)**
(-) Effect of acquisitions	0	(287)
Personnel expenses (adj.)	**(191,443)**	**(213,599)**
Income taxes	**(33,944)**	**(41,503)**
(-) Corporate tax impact of goodwill/investment impairment charges	11,552	(5,561)
(-) Corporate tax impact of the special tax on financial institutions	3,120	1,561
(+) Tax deductible transfers (offset against corporate taxes)	(9,565)	(2,162)
(-) Corporate tax impact of the effect of fines imposed by the Hungarian Competition Authority	0	(17)
(-) Corporate tax impact of the effect of acquisitions	0	(2,298)
(-) Corporate tax impact of the gain on the sale of Visa Europe shares	(2,764)	0
(-) Corporate tax impact of switching to IFRS from HAR in Hungary	(5,766)	0
(-) Revaluation of deferred taxes recognized in the P&L due to the corporate tax rate cut in Hungary	(6,054)	0
Corporate income tax (adj.)	**(43,596)**	**(37,350)**

	2016 HUF million	2017 HUF million
Other operating expense, net	**(36,405)**	**(51,230)**
(-) Other costs and expenses	(5,639)	(5,795)
(-) Other non-interest expenses	(42,351)	(21,162)
(-) Effect of acquisitions	0	(9,504)
(-) Revaluation result of FX provisions	22	16
(-) Expected one-off impact of regulatory changes related to CHF consumer contracts in Croatia	9,642	54
(-) Expected one-off impact of the CHF mortgage loan conversion programme and regulatory changes related to mortgage loans in Romania	23,123	(1,414)
(-) Impact of fines imposed by the Hungarian Competition Authority	(1,207)	0
(-) Netting of refunds related to legal cases (accounted for on the Net other non-interest result line) with the release of provisions created earlier for these cases (accounted for on the Other provisions line) from 1Q 2017 at OTP Bank Romania		1,200
Other provisions (adj.)	**(19,995)**	**(14,624)**
Other administrative expenses	**(220,228)**	**(236,072)**
(+) Other costs and expenses	(5,639)	(5,795)
(+) Other non-interest expenses	(42,351)	(21,162)
(-) Paid cash transfers	(13,131)	(11,496)
(+) Film subsidies and cash transfers to public benefit organisations	(13,130)	(11,495)
(-) Other other non-interest expenses	(29,221)	(9,666)
(-) Special tax on financial institutions (recognised as other administrative expenses)	(17,069)	(16,794)
(-) Tax deductible transfers (offset against corporate taxes)	(9,565)	(2,162)
(-) Financial Transaction Tax	(47,025)	(51,770)
(-) Impact of fines imposed by the Hungarian Competition Authority	(793)	0
(-) Effect of acquisitions		(931)
Other non-interest expenses (adj.)	**(164,545)**	**(181,706)**

STATEMENT OF PROFIT OR LOSS OF OTP BANK PLC., ACCORDING TO IFRS STANDARDS AS ADOPTED BY THE EUROPEAN UNION (SEPARATE, AUDITED)[1]

	2017 HUF million	2016 HUF million	Change %
Loans	120,960	125,170	(3)
Placements with other banks	47,776	102,317	(53)
Amounts due from banks and balances with the National Banks	1,403	9,830	(86)
Securities available-for-sale	30,100	35,766	(16)
Securities held-to-maturity	44,737	41,327	8
Interest income	*244,976*	*314,410*	*(22)*
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	56,893	103,668	(45)
Deposits from customers	9,244	22,853	(60)
Liabilities from issued securities	151	1,329	(89)
Subordinated bonds and loans	3,033	13,721	(78)
Interest expense	*69,321*	*141,571*	*(51)*
Net interest income	**175,655**	**172,839**	**2**
Provision for impairment on loans	7,807	13,629	(43)
Provision for impairment on placement losses	-32	3	(1167)
Provision for impairment on loans and placement losses	7,775	13,632	(43)
NET INRETEST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES	167,880	159,207	5
Income from fees and commissions	206,759	189,731	9
Expense from fees and commissions	30,355	26,254	16
NET PROFIT FROM FEES AND COMMISSIONS	176,404	163,477	8
Foreign exchange gains, net (-)/(+)	4,555	5,075	(10)
Gains / (losses) on securities, net	7,946	44,999	(82)
Gains on derivative instruments, net	2,030	656	209
Dividend income	82,638	90,467	(9)
Other operating income	9,990	8,583	16
Other operating expense	71,359	(28,851)	(347)
NET OPERATING RESULT	178,518	120,929	48
Personnel expenses	90,444	88,720	2
Depreciation and amortization	20,486	21,872	(6)
Other administrative expenses	141,455	139,547	1
OTHER ADMINISTRATIVE EXPENSES	252,385	250,139	1
PROFIT BEFORE INCOME TAX	**270,417**	**193,474**	**40**
Income tax	18,867	21,096	(11)
NET PROFIT FOR THE PERIODS	**251,550**	**172,378**	**46**
From this, attributable to non-controlling interest	0	0	
NET PROFIT FOR THE PERIODS ATTRIBUTABLE OWNERS OF THE COMPANY	**251,550**	**172,378**	**46**

[1] The rows of the table are based on audited numbers, but some rows differ from audited data (merged or different level of aggregation).

STATEMENT OF FINANCIAL POSITION OF OTP BANK PLC., ACCORDING TO IFRS STANDARDS AS ADOPTED BY THE EUROPEAN UNION (SEPARATE, AUDITED)[1]

	2017 HUF million	2016 HUF million (Restated)	Change %
Cash, amounts due from banks and balances with the National Bank of Hungary	399,124	928,846	(57)
Placements with other banks, net of allowance for placement losses	978,098	915,654	7
Financial assets at fair value through profit or loss	303,927	168,188	81
Securities available-for-sale	1,735,902	1,484,522	17
Loans, net of allowance for loan losses	2,145,046	1,902,937	13
Investments in subsidiaries, associates and other investments	967,414	668,869	45
Securities held-to-maturity	1,043,779	858,150	22
Tangible and intangible assets	100,537	92,395	9
Tangible assets	65,286	62,361	5
Intangible assets	32,877	27,767	18
Investment property	2,374	2,267	5
Other assets	98,055	133,571	(27)
TOTAL ASSETS	**7,771,882**	**7,153,132**	**9**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	694,533	646,271	7
Deposits from customers	5,192,869	4,745,051	9
Liabilities from issued securities	60,304	104,103	(42)
Financial liabilities at fair value through profit or loss	79,545	96,668	(18)
Other liabilities	210,539	238,258	(12)
Subordinated bonds and loans	108,835	110,358	(1)
TOTAL LIABILITIES	**6,346,625**	**5,940,709**	**7**
Share capital	28,000	28,000	0
Retained earnings and reserves	1,155,247	1,020,754	13
Net earnings for the year	251,550	172,378	46
Treasury shares	(9,540)	(8,709)	10
Non-controlling interest	0	0	
TOTAL SHAREHOLDERS' EQUITY	**1,425,257**	**1,212,423**	**18**
TOTAL LIABILTITIES AND SHAREHOLDERS' EQUITY	**7,771,882**	**7,153,132**	**9**

[1] The rows of the table are based on audited numbers, but some rows differ from audited data (merged or different level of aggregation).

STATEMENT OF PROFIT OR LOSS OF OTP BANK PLC., ACCORDING TO IFRS STANDARDS AS ADOPTED BY THE EUROPEAN UNION (CONSOLIDATED, AUDITED)[1]

	2017 HUF million	2016 HUF million	Change %
Loans	521,121	510,449	2
Placements with other banks	42,686	74,588	(43)
Amounts due from banks and balances with the National Banks	1,444	9,866	(85)
Securities held for trading	0	0	
Securities available-for-sale	34,442	34,557	0
Securities held-to-maturity	56,343	51,427	10
Other interest income	10,479	8,804	19
Interest income	*666,515*	*689,691*	*(3)*
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	46,475	75,925	(39)
Deposits from customers	50,995	72,554	(30)
Liabilities from issued securities	5,727	4,726	21
Subordinated bonds and loans	2,259	10,239	(78)
Other interest expense	7,303	6,518	12
Interest expense	*112,759*	*169,962*	*(34)*
Net interest income	**553,756**	**519,729**	**7**
Provision for impairment on loans	40,620	93,605	(57)
Provision for impairment on placement losses	228	(132)	(273)
Provision for impairment on loans and placement losses	40,848	93,473	(56)
NET INRETEST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES	512,908	426,256	20
Income from fees and commissions	315,606	272,235	16
Expense from fees and commissions	54,413	49,244	10
NET PROFIT FROM FEES AND COMMISSIONS	261,193	222,991	17
Foreign exchange gains, net (-)/(+)	16,579	29,304	(43)
Gains on derivative instruments, net	5,291	6,838	(22)
Gains / (losses) on securities, net	7,930	20,828	(62)
Gains on real estate transactions	2,093	1,923	9
Dividend income	4,152	3,054	36
Net insurance result	409	0	
Other operating income	62,967	17,705	256
Other operating expense	(51,230)	(36,406)	41
NET OPERATING RESULT	48,191	43,246	11
Personnel expenses	213,886	191,442	12
Depreciation and amortization	49,492	44,427	11
Other administrative expenses	236,072	220,229	7
OTHER ADMINISTRATIVE EXPENSES	499,450	456,098	10
PROFIT BEFORE INCOME TAX	**322,842**	**236,395**	**37**
Income tax	41,503	33,943	22
NET PROFIT FOR THE PERIODS	**281,339**	**202,452**	**39**
From this, attributable to non-controlling interest	(197)	(242)	(19)
NET PROFIT FOR THE PERIODS ATTRIBUTABLE OWNERS OF THE COMPANY	**281,142**	**202,210**	**39**

[1] The rows of the table are based on audited numbers, but some rows differ from audited data (merged or different level of aggregation).

FINANCIAL POSITION OF OTP BANK PLC., ACCORDING TO IFRS STANDARDS AS ADOPTED BY THE EUROPEAN UNION (CONSOLIDATED, AUDITED)[1]

	2017 HUF million	2016 HUF million (Restated)	Change %
Cash, amounts due from banks and balances with the National Bank of Hungary	1,198,045	1,625,357	(26)
Placements with other banks, net of allowance for placement losses	462,180	363,530	27
Financial assets at fair value through profit or loss	344,417	189,778	81
Securities available-for-sale	2,174,718	1,527,093	42
Loans, net of allowance for loan losses	6,987,834	5,736,232	22
Investments in subsidiaries, associates and other investments	12,269	9,836	25
Securities held-to-maturity	1,310,331	1,114,227	18
Tangible and intangible assets	413,390	355,516	16
Tangible assets	237,321	193,485	23
Intangible assets	176,069	162,031	9
Other assets	287,044	287,472	0
TOTAL ASSETS	**13,190,228**	**11,209,041**	**18**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	472,068	543,775	(13)
Deposits from customers	10,233,471	8,540,583	20
Liabilities from issued securities	250,320	146,900	70
Financial liabilities at fair value through profit or loss	69,874	75,871	(8)
Other liabilities	448,412	403,805	11
Subordinated bonds and loans	76,028	77,458	(2)
TOTAL LIABILITIES	**11,550,173**	**9,788,392**	**18**
Share capital	28,000	28,000	0
Retained earnings and reserves	1,390,737	1,247,268	12
Net earnings for the year	281,142	202,210	39
Treasury shares	(63,289)	(60,121)	5
Non-controlling interest	3,465	3,292	5
TOTAL SHAREHOLDERS' EQUITY	**1,640,055**	**1,420,649**	**15**
TOTAL LIABILTITIES AND SHAREHOLDERS' EQUITY	**13,190,228**	**11,209,041**	**18**

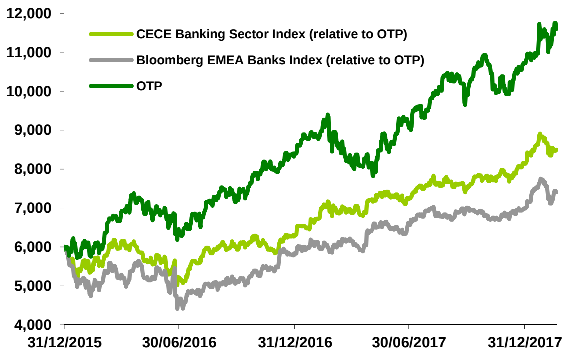
[1] The rows of the table are based on audited numbers, but some rows differ from audited data (merged or different level of aggregation).

BUSINESS REPORT
OTP GROUP

CONSOLIDATED FINANCIAL HIGHLIGHTS[9] AND SHARE DATA

Main components of the Statement of profit or loss	2016 HUF million	2017 HUF million	Change %
Consolidated after tax profit	**202,452**	**281,339**	**39**
Adjustments (total)	**1,276**	**(2,733)**	**(314)**
Consolidated adjusted after tax profit without the effect of adjustments	**201,176**	**284,072**	**41**
Pre-tax profit	244,772	321,421	31
Operating profit	335,900	363,159	8
Total income	736,316	804,946	9
Net interest income	521,949	546,654	5
Net fees and commissions	175,966	209,428	19
Other net non-interest income	38,400	48,864	27
Operating expenses	(400,416)	(441,788)	10
Total risk costs	(93,218)	(45,682)	(51)
One off items	2,090	3,945	89
Corporate taxes	(43,596)	(37,349)	(14)
Main components of balance sheet closing balances	2016 (Restated[10])	2017	%
Total assets	11,209,041	13,190,228	18
Total customer loans (net, FX adjusted)	**5,665,091**	**6,987,834**	**23**
Total customer loans and advances (gross)	**6,680,504**	**7,690,419**	**15**
Total customer loans (gross, FX adjusted)	**6,571,364**	**7,690,419**	**17**
Allowances for possible loan losses	(944,273	(702,585)	(26)
Allowances for possible loan losses (FX adjusted)	(906,273	(702,585)	(22)
Total customer deposits (FX adjusted)	**8,428,360**	**10,233,471**	**21**
Issued securities	146,900	250,320	70
Subordinated loans	77,458	76,028	(2)
Total shareholders' equity	1,420,650	1,640,055	15
Indicators based on adjusted earnings	2016 (Restated)	2017	pps
ROE (from accounting net earnings)	15.4%	18.5%	3.1
ROE (from accounting net earnings, on 12.5% CET1 ratio)	17.6%	22.4%	4.8
ROE (from adjusted net earnings)	15.4%	18.7%	3.4
ROA (from adjusted net earnings)	1.9%	2.4%	0.5
Operating profit margin	3.10%	3.03%	(0.07)
Total income margin	6.79%	6.71%	(0.09)
Net interest margin	4.82%	4.56%	(0.26)
Cost-to-asset ratio	3.70%	3.68%	(0.01
Cost/income ratio	54.4%	54.9%	0.5
Risk cost to average gross loans	1.14%	0.43%	(0.71)
Total risk cost-to-asset ratio	0.86%	0.38%	(0.48)
Effective tax rate	17.8%	11.6%	(6.2)
Net loan/(deposit+retail bond) ratio (FX adjusted)	66%	68%	2
Capital adequacy ratio (consolidated, IFRS) - Basel3	16.0%	14.6%	(1.4)
Tier1 ratio - Basel3	13.5%	12.7%	(0.9)
Common Equity Tier1 ('CET1') ratio - Basel3	13.5%	12.7%	(0.9)
Share Data	2016	2017	%
EPS base (HUF) (from unadjusted net earnings)	765	1,074	40.3
EPS diluted (HUF) (from unadjusted net earnings)	765	1,074	40
EPS diluted (HUF) (from adjusted net earnings)	761	1,085	43
Closing price (HUF)	8,400	10,720	28
Highest closing price (HUF)	8,411	10,930	30
Lowest closing price (HUF)	5,714	7,815	37
Market Capitalization (EUR billion)	7.6	9.7	28
Book Value Per Share (HUF)	5,074	5,857	15
Tangible Book Value Per Share (HUF)	4,487	5,219	16
Price/Book Value	1.7	1.8	11
Price/Tangible Book Value	1.9	2.1	10
P/E (trailing, from accounting net earnings)	11.6	10.7	(8)
P/E (trailing, from adjusted net earnings)	11.7	10.6	(10)
Average daily turnover (EUR million)	15	15	(4)
Average daily turnover (million share)	0.7	0.5	(30)

SHARE PRICE PERFORMANCE



MOODY'S RATINGS

OTP Bank - FX long term deposits — Baa3

OTP Mortgage Bank - Covered mortgage bond — Baa1

S&P GLOBAL RATINGS

OTP Bank and **OTP Mortgage Bank -** FX Long term credit rating — BBB-

DAGONG GLOBAL RATING

OTP Bank - FX long term credit rating — BBB+

FITCH RATING

OTP Bank Russia - Long term credit rating — BB

[9] Structural adjustments made on consolidated IFRS profit and loss statement as well as balance sheet, together with the calculation methodology of adjusted indicators are detailed in the Supplementary data section of this Report.
[10] Certain balance sheet items have been restated for 2016. For details see the Supplementary data section.

MANAGEMENT'S ANALYSIS OF THE FULL-YEAR 2017 RESULTS OF OTP GROUP

According to the preliminary data published on 14 February 2017 the Hungarian GDP grew by 4.2% (seasonally and working-day adjusted) due to the robust increase in 4Q (+4.8%). As a result 2017 stands out as one of the most successful years in the history of the Hungarian economy. The growth rate was amongst the fastest ones in Europe and economic expansion is broad-based, while the balance indicators are stable and improving. According to the preliminary statistics the fiscal deficit could be around 2% of GDP, whereas the public debt to GDP moderated further (74%). The yearly wage increase in excess of 10% boosted household consumption which expanded by 4.3%, and investments grew by more than 20% y-o-y. In 2017 the average annual inflation was 2.4%. The strengthening economic metrics have been coupled with accommodative monetary policy and a favourable external environment.

The sovereign rating was back to investment grade again (Baa3/BBB-) by all major rating agencies. In the case of Fitch and S&P the outlook is positive which might induce further upgrades, whereas it is stable at Moody's. The current sovereign credit spreads also indicate potential rating improvement in the medium-run.

The Hungarian Central Bank has continued to pursue an expansionary monetary policy which has constantly and efficiently supported the sustainable growth of the economy. Local government yields dropped all across the curve y-o-y.

As for 2018, the Government and the Central Bank forecast GDP growth exceeding 4%. The key engine is going to be the strengthening local consumption, albeit the favourable West-European economic recovery provides a good platform for export growth, too. Amid the tight labour market, the wage agreement reached by the end of 2016, as well as certain government measures might result in a somewhat moderating wage increase below 10%. In 2018 the average CPI may be around 2.6%, i.e. falling short of the 3% inflation target set by the Central Bank.

2017 brought a visible recovery in lending activity in Hungary; alongside the corporate exposures the household sector also demonstrated net volume growth (+1.3% y-o-y). New mortgage origination was outstandingly strong: according to NBH's preliminary statistics new volumes surged by over 30% y-o-y. Interest levels dropped by almost 1 pp for newly disbursed housing loans (4.46%), the reduction was material for both floating and fixed rate mortgages.

As for the rest of the Group, all markets within OTP universe witnessed GDP growth, the overall macro environment improved and several countries enjoyed sovereign rating upgrades (Bulgaria, Serbia, and Croatia). For 2018 OTP management forecasts further improvement. In Ukraine GDP growth may exceed 3%, while in Russia the economic growth may reach 2.5% according to OTP's forecast. In both countries local currencies are expected to remain relatively stable.

Regarding the interest rate environment in 2017 most of the countries within OTP's universe witnessed further reduction: in Hungary the reference rate (3M BUBOR) dropped from 37 bps to 3 bps y-o-y, in Bulgaria it hovered around zero for most of the year, and in Russia CBR cut the base rate from 10% to 7.75%. In Ukraine and Romania this trend turned around: the Ukrainian central bank made two consecutive 100 bps rate hikes in 4Q 2017; as a result the base rate stood at 14.5% at the end of 2017, whereas in Romania the interest rate corridor was tightened. Albeit the management still forecasts low/benign interest rate environment for 2018, in a couple of countries central banks became more cautious: in Ukraine there was a 150 bps rate hike in January, while in Romania the central bank further tightened monetary conditions (by 25-25 bps rate hikes in January and February).

Consolidated results: over HUF 284 billion after tax profit in 2017 with moderating NIM; risk costs halved and credit quality kept improving

In 2017 OTP Group posted its highest ever consolidated accounting and adjusted profit; such a performance was shaped by several factors. The single most important one was the operating environment becoming supportive in every market; amid the decreasing interest rate environment the negative impact of eroding net interest margin on net interest income was overall offset by dynamically expanding performing loan volumes backed by strengthening business activity. Additionally, the credit quality improved further, coupled with lower risk costs and occasionally with provision write-backs. Acquisitions also had a positive effect on y-o-y profit dynamics: the Croatian Splitska banka added 8 months of its earnings to consolidated profit, the Serbian Vojvodjanska banka 1 month, and there was a positive base effect related to the take-over of the AXA portfolio in Hungary (in 2016 only 2 months earnings were consolidated). Finally, the lower Hungarian corporate tax rate (cut from 19% to 9% effective from 1 January 2017) also had a positive effect on the bottom line profit.

The consolidated accounting profit was HUF 281.3 billion in 2017 versus HUF 202.5 billion in the base period.

The annual accounting ROE was 18.5%. The adjusted ROA stood at 2.37% (+0.51 pp y-o-y).

In 2017 as a whole adjustment items amounted to -HUF 2.7 billion (after tax) and were as follows:

- In 2017 the banking taxes paid by Group members resulted in an after tax negative impact of HUF 15.2 billion, including the Hungarian special tax of financial institutions and the Slovakian banking levy. As for the Hungarian banking tax, the base for calculating the 2017 levy did change, i.e. it was the adjusted total assets at the end of 2015; the applicable upper rate was reduced to 0.21%.
- -HUF 6.1 billion (after tax) negative tax effect related partly to the reversal of impairment charges booked in relation to certain subsidiaries; also, at OTP Bank Slovakia there was a HUF 0.5 billion goodwill write-off;
- +HUF 17.7 billion acquisition effect related partially to the gain on bargain purchase on Splitska and Vojvodjanska banka's acquisition and some expected integration expenses;
- +HUF 0.7 billion dividend and net cash transfer (after tax).

Since the 2017 P&L lines incorporate 8 months results from Splitska banka and 1 month from Vojvodjanska banka, the y-o-y comparison of the Group performance is somewhat difficult. Overall, the core figures reflect favourable business and income dynamics let them be based on organic or acquisition-supported trends.

In 2017 OTP Group posted HUF 284.1 billion adjusted after-tax profit (+41% y-o-y) Adjusted for the positive impact of the Splitska banka and Vojvodjanska banka acquisitions (in total HUF 11 billion) the increase would be 36% y-o-y. The annual corporate tax burden declined by HUF 6.2 billion which was partially explained by the y-o-y 10 pps lower Hungarian corporate tax rate, and as a result the consolidated effective tax rate dropped substantially in 2017 (11.6%). Profit before tax expanded by 31% y-o-y.

Within the annual consolidated adjusted profit the following group members posted outstanding results: OTP Core (HUF 168.6 billion), DSK Bank (HUF 47.1 billion), OTP Bank Russia (HUF 27.8 billion), the Croatian operation (HUF 17.1 billion, o/w the contribution of Splitska was HUF 10.9 billion) and Ukraine (HUF 14.1 billion). The annual profit in Bulgaria remained stable y-o-y, whereas all others saw an improvement. Furthermore, both Merkantil (the leasing company) and OTP Fund Management managed to further boost bottom line earnings y-o-y, while in Romania profit surged by 83% y-o-y. At the same time the Montenegrin and Slovakian subsidiaries remained in the red and the Serbian subsidiary couldn't repeat its profitable 2016 performance and posted a negative result. There hasn't been any meaningful turnaround at the Russian on-line bank (Touch Bank) and it suffered its third consecutive loss-making year (-HUF 7.4 billion).

It was positive that the consolidated total income (adjusted for one-off revenue items) advanced by 9% y-o-y, and even without the positive impact of the Splitska consolidation the increase was 5%. The annual operating profit increased by 8% y-o-y (+4% adjusted for Splitska), whereas total risk costs halved.

It was particularly encouraging that despite further eroding net interest margin the annual net interest income even without Splitska banka grew by 1% y-o-y (+5% including Splitska) supported by the increase of performing loans. The good total income stream was mainly induced by the dynamic expansion of net fees and commissions (+19% y-o-y and +15% without Splitska); furthermore other net non-interest income also grew by around HUF 10.5 billion y-o-y. There were several larger items causing one-off growth in other income: the consolidation of Splitska resulted in an increase of +HUF 3.3 billion; at DSK Bank around HUF 1.1 billion arose because interest claims related to off-balance sheet items of the Bulgarian factoring company have been revised, and also, the fair value adjustment of derivatives shifted into the net interest income boosted this line by HUF 2 billion.

The annual net interest margin was 4.56% underpinning a 26 bps y-o-y erosion as a result of declining interest environment, intensifying competition, the composition effect of lower NIM at Splitska banka and the dilution effect of higher total assets on the back of dynamic deposit inflows. It is important to note that without the consolidation of Splitska banka the annual NIM erosion would have been only 16 bps, in line with the forecast given by the management for 2017 (15-20 bps NIM erosion).

Consolidated annual operating expenses went up by 10% y-o-y, whereas without the effect of the acquired banks the FX-adjusted increase was 4.6%. Higher personnel expenses (+7% y-o-y without Splitska) were fuelled by wage inflation and also by higher number of employees, whereas in Hungary the contribution tax paid by the employer shrank by 5 pps y-o-y. Administrative expenses were pushed up by increasing marketing costs explained by the stronger business activity, but also higher advisory costs related to acquisitions and business development projects and finally, the on-going digital transformation required additional expenses, too.

The FX-adjusted gross loan portfolio expanded by 17% y-o-y. Due to the write-offs and sale of non-performing portfolio, underlying trends are better represented through the performing loan volume trends. The performing (DPD0-90) portfolio grew by 25%. Adjusted for the acquisitions the annual increase would demonstrate a 10% yearly organic growth. It was positive that in 2017 the FX-adjusted performing loan portfolio increased in all countries and in all major segments. There was a substantial y-o-y increase in Hungary (+11%), Russia (+22%), Ukraine (+11%), Romania (+10%) and Bulgaria (+7%). The Croatian loan book grew by 6% organically, and with the consolidation of Splitska banka the expansion was 153% y-o-y. The Serbian performing book increased almost four-fold as a result of the consolidation of Vojvodjanska banka in December.

As for the major product categories: the large corporate exposures grew the fastest (+33%, without acquisition +16%), while the performing consumer book increased by 32% y-o-y, the SME book by 14% and the mortgage loans by 10% (+2% without acquisitions).

The FX-adjusted deposit book grew by 21% y-o-y, without acquisitions by 8%, respectively. As a result the consolidated net loan-to-(deposit+retail bonds) ratio increased by 1.8 pp y-o-y, reaching 68.3%.

The volume of issued securities leaped by 70% y-o-y, the Hungarian retail bonds practically disappeared, at the same time the volume of covered bonds increased substantially induced partly by regulatory requirements.

The volume of securities comprised HUF 3,699 billion at the end of 2017 (+38% y-o-y), the bulk of which was government securities. The y-o-y significantly growing liquidity surplus was invested mostly into Hungarian and foreign sovereign papers.

At the end of 2017 the Group' gross liquidity reserves comprised EUR 8.3 billion equivalent.

Similar to previous years the Group continued selling/writing off non-performing volumes. In 2017 the total amount comprised HUF 255 billion (FX-adjusted).

In line with the management forecast and the improving macroeconomic environment the development of DPD90+ volumes remained favourable: DPD90+ volumes (adjusted for FX and the effect of sales and write-offs) grew by HUF 50.8 billion in 2017, against HUF 77 billion in 2016.

The consolidated DPD90+ ratio declined substantially, by 5.5 pps y-o-y and stood at 9.2% at the end of 2017. The last time the ratio was below 10% in 2009. The lower DPD90+ ratio was supported not only by non-performing loan sales and write offs, but also by the acquisitions: in case of the acquired banks the DPD90+ volumes were consolidated net of provisions. In Hungary the DPD90+ ratio was 6.4% at the end of 2017.

OTP Core: HUF 168.6 billion adjusted net earnings; continuing NIM erosion, 11% performing volume growth, favourable credit quality trends

The adjusted after tax profit of **OTP Core** (basic activity in Hungary) reached HUF 168.6 billion in 2017, underpinning a 38% y-o-y increase.

The annual result was shaped by higher operating profit (+5% y-o-y without one-offs) and favourable risk cost trends. Annual total income increased by 3% mainly as a result of better net fees and commission supported by improving business activity. At the same time net interest income remained practically flat y-o-y which is quite an achievement given the y-o-y 27 bps net interest margin erosion (2017: 3.22%). NIM was negatively affected by the dilution effect as a result of deposit inflows, but also by the reference rate (3M BUBOR) dropping by 34 bps y-o-y and the whole Hungarian credit curve declining significantly.

Operating expenses for the whole year grew only moderately (+2% y-o-y) despite strong wage inflation and higher advisory and marketing expenses induced by strengthening business activity.

Positive credit quality trends continued: the DPD90+ volumes declined. This effect, coupled with the overall loan portfolio increase, resulted in lower DPD90+ ratio (6.4%, -3.4 pps y-o-y). As a result of the improving portfolio quality HUF 30.8 billion of provisions were released in 2017.

The long-awaited turnaround in credit growth finally kicked in across all product categories: the performing portfolio expanded by 11% y-o-y (FX-adjusted), within that the consumer book grew by 25%, the corporate exposure by 18%, the SME by 13% and the mortgage book by 2%.

The FX-adjusted deposits (including retail bonds) increased steadily (+10% y-o-y), and as a result the Bank's net loan-to-deposit ratio was 49%, practically unchanged y-o-y.

Merkantil Bank and Car more than tripled its adjusted annual net earnings realizing almost HUF 8.3 billion, the highest ever profit. Such a good performance was mainly shaped by provision releases throughout 2017. The FX-adjusted performing loan book grew by 9% y-o-y.

OTP Fund Management posted improving annual profits in 2017 (+24% y-o-y); the HUF 8.3 billion after tax earnings were the highest ever due to excellent fee income. The company's market position improved by 0.4 pps y-o-y, retaining their market leading position.

Foreign subsidiaries' annual performance: stable Bulgarian, improving Russian, Ukrainian, Croatian and Romanian performance, loss-making operations in Slovakia, Serbia and Montenegro as a result of prudent provisioning

The ***Bulgarian subsidiary*** posted almost the same bottom-line results in 2017 as in 2016; the annual profit of HUF 47.1 billion underpins a y-o-y 1% decline. It is still the second biggest net earnings across the Group.

Annual operating profit decreased by 12% y-o-y, within that total income moderated by 4% y-o-y. The lower NII (-14% y-o-y) reflects eroding margins: the annual NIM (3.85%) tightened by 75 bps. The lower NIM was mainly related to the repricing of the retail portfolio. Strong business activity boosted net fees and commissions (+6%y-o-y). The performing loan portfolio advanced by 7%y-o-y with all major segments increasing: the corporate book grew by 13%, but mortgages also demonstrated a decent growth. The FX-adjusted deposits expanded by 6% y-o-y, and as a result the net loan-to-deposit ratio marginally grew (66%).

The portfolio quality kept further improving and the DPD90+ ratio dropped substantially, by 3.5 pps y-o-y to 7.9%. The volume of total risk costs almost halved y-o-y, as a result the risk cost rate in 2017 was 0.31%.

The bank's profitability was outstanding, the annual ROE stood at 20.0%.

The profitability of the ***Russian subsidiary*** improved further and in 2017 the bank posted HUF 27.8 billion after-tax results (without Touch Bank) underpinning a 35% y-o-y increase. Since the average rate of the RUB strengthened 11% y-o-y against the HUF, the performance is better measured in local currency.

In RUB terms the annual net results grew by 22% y-o-y. Operating income improved by 4%, the higher total income (+6%) offset the negative impact of increasing operating expenses (+8% y-o-y). It was positive that the y-o-y marginally weaker net interest income was offset by the robust increase of net fees and commissions (+47%). Amid the continuously decreasing interest rate environment the annual NIM dropped by 96 bps in RUB terms (16.86%).

The credit quality kept improving: in 2017 DPD90+ volumes (adjusted for FX, sale and write offs) grew by HUF 32.7 billion versus HUF 47.5 billion in 2016. As a result of this, but also due to sales/write offs the DPD90+ ratio declined to 15.8% (-4.4 pps y-o-y).The annual risk cost rate stood at 7.35% (-0.83 pp y-o-y).

Performing loan volumes surged by 22% y-o-y. FX-adjusted deposit volumes increased by 9%y-o-y.

The bank's annual ROE stood at 21%.

From a legal point of view **Touch Bank** is part of OTP Bank Russia and operating under the same banking license, but as a separate digital banking business line. In 2017 the bank remained in the red already for the third consecutive year (-HUF 7.4 billion, in RUB terms +13% y-o-y). Despite the bank reached some results in client acquisition and lending – the FX-adjusted loan book increased more than eight-fold y-o-y to HUF 12.8 billion – the performance fell short of the management's expectations. Apart from high operating expenses, elevating risk costs was the key reason behind the bank's loss-making performance.

The ***Ukrainian subsidiary*** improved its annual profit in 2017 by 38% y-o-y and reached HUF 14.1 billion. While the local currency remained fairly stable against previous years' performance, on average UAH depreciated 6% against HUF, i.e. the performance is better in UAH terms.

The annual profitability in UAH was mainly shaped by the 83% y-o-y decrease in risk costs; operating profit dropped by 9% y-o-y as total income moderated by 1%, however operating expenses grew by 12% y-o-y. The annual NII came down by 7%: the meaningful erosion of the net interest margin (2017: 7.46%, -156 bps y-o-y) could be only partly counterbalanced by the 11% increase of performing loan volumes. Net fees and commissions surged by 19% y-o-y supported by stronger business activity and increasing transaction volumes.

The Bank's ROE was 47.1%, the highest amongst subsidiary banks.

Credit quality trends were clearly positive: DPD90+ volumes (FX-adjusted, without sales/write offs) declined by HUF 1.3 billion y-o-y. The DPD90+ ratio dropped to 26.4% (-15.5 pps y-o-y), mainly as a result of HUF 64.2 billion non-performing portfolio sales and write off.

Performing volumes grew by 11% y-o-y, within that corporate exposure increase by 10%, whereas the consumer loan book by 43%, respectively. Mortgage lending is still suspended, but in 2017 car financing was resumed and performing volumes grew by 43% y-o-y (albeit from a low base). The FX-adjusted deposits expanded by 18%. The net-loan-to-deposit ratio slightly increased y-o-y (84%).

The outstanding intragroup exposure towards the whole Ukrainian operation eroded further and by the end of 4Q 2017 dropped to HUF 29 billion equivalent.

The total **Croatian operation** posted above HUF 17.1 billion net profit in 2017, without the contribution of Splitska banka (for 8 months HUF 10.9 billion) it represented HUF 6.2 billion (+63% y-o-y). As a result of the acquisition the annual performance is difficult to compare to 2016 however certain indicators already manifest the positive impact of the deal. The annual ROE was 9.3% (2016: 5.2%), whereas the cost-to-income ratio declined to 54.8% (-2.2 pps y-o-y).

The performing loan portfolio surged by 153% y-o-y. Without Splitska banka the increase was 6%. The credit quality of the portfolio improved: the DPD90+ ratio decreased to 6.6% (-5.5 pps y-o-y).

The ***Romanian subsidiary***'s adjusted annual profit exceeded HUF 3 billion (+83% y-o-y). The 4Q profit was HUF 1 billion. Operating income improved by 9% y-o-y; alongside the 2% increase of total income (within that both NII and fees and commissions declined), operating expenses moderated by the same magnitude. Annual total risk costs dropped by 16% y-o-y. The net interest margin for 2017 eroded by 12 bps (3.27%), but the pace of decline moderated y-o-y. The performing loan volumes grew by 10% y-o-y (FX-adjusted) supported by a dynamic expansion of the consumer and SME exposures. The net loan-to-deposit ratio increased to 142%. The DPD90+ ratio declined to 13.5%.

After a loss-making year in 2016 the **Slovakian subsidiary** remained in the red in 2017, too (-HUF 2.0 billion). The operating income eroded by 2% y-o-y, the major income lines suffered a setback. It was only partially offset by lower operating expense (-2% y-o-y). Total risk costs dropped by 9% y-o-y. Amid fierce pricing competition the bank failed to stabilize its NIM (2017: 2.98%, -16 bps y-o-y). Performing volumes grew moderately y-o-y (+1%). The portfolio quality stabilized: the DPD90+ ratio moderated to 9.4% (-1.8 pps y-o-y).

The ***Serbian subsidiary*** posted HUF 2.9 billion loss in 2017. The annual figures already include the balance sheet of Vojvodjanska banka and also its one moth earnings (HUF 73 million), so the y-o-y comparison is distorted. As a result of the consolidation performing loan volumes increased almost four-folds, without the acquisition the portfolio still grew by 17% y-o-y. Total FX-adjusted deposits more than quadrupled. Consequently, the combined operation's net loan-to-deposit ratio dropped to 82% (-23 pps y-o-y).

Despite the loss at the **Montenegrin subsidiary** decreasing substantially, the bank failed to leave behind loss-making operation already seen in 2015 and 2016. In 2017 it posted -HUF 155 million negative result. The significant drop in risk costs (-57% y-o-y) was not enough to off-set the y-o-y 33% decline in operating profit. The annual NIM eroded by 19 bps y-o-y (3.38%), the NII declined by 6% despite performing loan volumes growing by 16% y-o-y. During 2017 the management pushed through a significant portfolio clean-up, and partly as a result of non-performing portfolio sales and write-backs the DPD90+ ratio dropped to 31.3% (-11.1 pps y-o-y).

Consolidated and stand-alone capital adequacy ratio (in accordance with BASEL III)

At the end of December 2017 the consolidated Common Equity Tier1 ratio under IFRS was 12.7%. The decline was explained partially by the consolidation of Splitska banka (-1.4 pps) and Vojvodjanska banka (-0.5 pp). Neither the interim net result was included, nor the accrued dividend amount was deducted from the regulatory capital when calculating the IFRS consolidated capital adequacy ratios. Including those items the CET1 ratio would be 15.3%.

OTP Bank's stand-alone common equity Tier1 ratio was 29.0% by the end of 2017.

Credit rating, shareholder structure

During 2017 there have been several positive developments in the credit rating of OTP Bank: on 24 July 2017 S&P Global improved OTP Bank and OTP Mortgage Bank long term FX and local currency rating into investment grade ('BBB-'), the outlook is stable. Furthermore, on 19 October 2017, Moody's Investors Service upgraded OTP Bank Plc.'s long and short-term local-currency deposit ratings to 'Baa2/Prime-2' from 'Baa3/Prime-3'. At the same time the junior subordinated rating of the bank was raised by one notch to 'Ba3 (hyb)' from 'B1 (hyb)'. Also, the rating agency upgraded the backed long-term local-currency issuer rating of OTP Mortgage Bank Ltd. to 'Baa3' from 'Ba1', with stable outlook. On 22 November Dagong Global gave a 'BBB+' inaugural rating for OTP Bank's long-term liabilities, the outlook was stable.

Regarding the ownership structure of the Bank, by 31 December 2017 the following investors had more than 5% influence (voting rights) in the Company: MOL (the Hungarian Oil and Gas Company, 8.66%), the Rahimkulov family (8.57%), OPUS Securities SA (5.23%) and Groupama Group (5.19%).

POST BALANCE SHEET EVENTS

Hungary

- Effective from 29 January the National Bank of Hungary (NBH) has modified the monetary policy interest rate swap (MIRS) facility terms and conditions. Accordingly, it will announce its monetary policy interest rate swap facility (MIRS) at fixed rate tenders. The allocation among banks will be based upon balance sheet totals.
- On 30 January 2018 the Monetary Council of NBH left interest conditions unchanged and stated that the Council's aim is that the loose monetary conditions have their effect not only at the short, but also at the longer end of the yield curve. For that purpose the NBH will continue mortgage bond purchases and the monetary policy interest rate swap facility as programmes. The Council focuses on the relative position of domestic long-term yields relative to international yields when evaluating the programme.
- According to the notification received from the Government Debt Management Agency, effective from 12 February 2018 the distribution fee rates related to the sale of retail government bonds to households was cut further. As a result, the distribution fee on 6M Government Bonds was reduced from 0.2% to 0.1%, on 1 year Government Bonds from 0.6% to 0.3%, whereas on 2 year Government Bonds, Premium and Bonus Government Securities from 0.8% to 0.4-0.8%, respectively, depending on particular products and maturities.

Russia

- On 25 January 2018 Moody's changed the outlook on Russia's 'Ba1' long-term issuer and senior unsecured debt ratings to positive from stable.
- On 9 February 2018 Central bank of Russia cut the base rate by 25 bps to 7.5%.
- On 23 February 2018 Fitch Ratings affirmed Russia's long term foreign and local currency issuer rating at 'BBB-'with positive outlook.
- On 23 February 2018 S&P Global raised its foreign currency sovereign credit ratings on Russia to 'BBB-'.The outlook is stable.

Ukraine

- On 25 January 2018 the Ukrainian central bank raised its key rate by 150 bps to 16% and said that the USD 17.5 billion International Monetary Fund programme and future cooperation with the Fund remained vital for economic stability.

Romania

- The Romanian central bank lifted its benchmark interest rate by 25 bps to 2% in a move to anchor inflation expectations.
- On 7 February 2018 Romania's central bank delivered a 25 bps hike to its benchmark interest rate to 2.25% seeking to curb rising inflation.

Croatia

- On 12 January 2018 Fitch upgraded Croatia's credit rating to 'BB+' with a stable outlook.

CONSOLIDATED AFTER TAX PROFIT BREAKDOWN BY SUBSIDIARIES (IFRS)[11]

	2016 HUF million	2017 HUF million	Change %
Consolidated after tax profit	**202,452**	**281,339**	**39**
Adjustments (total)	**1,276**	**(2,733)**	**(314)**
Consolidated adjusted after tax profit without the effect of adjustments	**201,176**	**284,072**	**41**
Banks total without one-off items[1]	189,954	265,422	40
OTP CORE (Hungary)[2]	122,194	168,576	38
Corporate Centre (after tax)[3]	(5,868)	194	(103)
OTP Bank Russia[4]	20,535	27,771	35
Touch Bank (Russia)[5]	(5,898)	(7,391)	25
OTP Bank Ukraine[6]	10,202	14,120	38
DSK Bank (Bulgaria)[7]	47,385	47,122	(1)
OBR (Romania)[8]	1,655	3,036	83
OTP banka Srbija (Serbia)[9]	39	(2,904)	
OBH (Croatia)[10]	3,783	17,105	352
OBS (Slovakia)[11]	(2,223)	(2,051)	(8)
CKB (Montenegro)[12]	(1,849)	(155)	(92)
Leasing	3,968	9,836	148
Merkantil Bank + Car, adj. (Hungary)[13]	2,605	8,260	217
Foreign leasing companies (Croatia, Bulgaria, Romania, Serbia)[14]	1,363	1,575	16
Asset Management	6,723	8,677	29
OTP Asset Management (Hungary)	6,658	8,259	24
Foreign Asset Management Companies (Ukraine, Romania, Bulgaria)[15]	65	418	543
Other Hungarian Subsidiaries	1,888	(747)	(140)
Other Foreign Subsidiaries (Slovakia, United Kingdom, Montenegro, Romania, Serbia, Croatia, Belize)[16]	403	295	(27)
Eliminations	(1,760)	590	(134)
Total adjusted after tax profit of HUNGARIAN subsidiaries[17]	125,718	185,132	47
Total adjusted after tax profit of FOREIGN subsidiaries[18]	75,458	98,940	31
Share of foreign profit contribution, %	38%	35%	(7)

[11] Belonging footnotes are in the Supplementary data section of the Report.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Main components of the Statement of profit or loss	2016 HUF million	2017 HUF million	Change %
Consolidated after tax profit	**202,452**	**281,339**	**39**
Adjustments (total)	**1,276**	**(2,733)**	**(314)**
Dividends and net cash transfers (after tax)	412	680	65
Goodwill/investment impairment charges (after tax)	11,552	(6,064	(152)
Special tax on financial institutions (after corporate income tax)	(13,950)	(15,233)	9
Impact of fines imposed by the Hungarian Competition Authority (after tax)	1,922	177	(91)
Effect of acquisitions (after tax)	0	17,708	
Corporate tax impact of switching to IFRS from HAR in Hungary	(5,766)	0	(100)
Revaluation of deferred taxes recognized in the P&L due to the corporate tax rate cut in Hungary	(6,054)	0	(100)
Gain on the sale of Visa Europe shares (after tax)	13,160	0	(100)
Consolidated adjusted after tax profit without the effect of adjustments	**201,176**	**284,072**	**41**
Before tax profit	**244,772**	**321,421**	**31**
Operating profit	**335,900**	**363,159**	**8**
Total income	**736,316**	**804,946**	**9**
Net interest income	**521,949**	**546,654**	**5**
Net fees and commissions	**175,966**	**209,428**	**19**
Other net non-interest income	**38,400**	**48,864**	**27**
Foreign exchange result, net[1]	13,266	21,622	63
Gain/loss on securities, net	5,655	7,068	25
Net other non-interest result[1]	19,478	20,175	4
Operating expenses	**(400,416)**	**(441,788)**	**10**
Personnel expenses	(191,443)	(213,599)	12
Depreciation	(44,428)	(46,482)	5
Other expenses	(164,545)	(181,707)	10
Total risk costs	**(93,218)**	**(45,682)**	**(51)**
Provision for loan losses	(73,223)	(31,058)	(58)
Other provision	(19,995)	(14,624)	(27)
Total one-off items	**2,090**	**3,945**	**89**
Gain on the repurchase of own Upper and Lower Tier2 Capital	0	0	
Result of the treasury share swap at OTP Core	2,090	3,945	89
Corporate taxes	**(43,596)**	**(37,349)**	**(14)**
INDICATORS	2016 (Restated)	2017	%/pps
ROE (from accounting net earnings)	15.4%	18.5%	3.1
ROE (from adjusted net earnings)	15.4%	18.7%	3.4
ROA (from adjusted net earnings)	1.9%	2.4%	0.5
Operating profit margin	3.10%	3.03%	(0.07)
Total income margin	6.79%	6.71%	(0.09)
Net interest margin	4.82%	4.56%	(0.26)
Net fee and commission margin	1.62%	1.75%	0.12
Net other non-interest income margin	0.35%	0.41%	0.05
Cost-to-asset ratio	3.70%	3.68%	(0.01)
Cost/income ratio	54.4%	54.9%	0.5
Risk cost for loan losses-to-average gross loans	1.14%	0.43%	(0.71)
Risk cost for loan losses-to-average FX adjusted gross loans	1.17%	0.42%	(0.76)
Total risk cost-to-asset ratio	0.86%	0.38%	(0.48)
Effective tax rate	17.8%	11.6%	(6.2)
Non-interest income/total income	29%	32%	3
EPS base (HUF) (from unadjusted net earnings)	765	1,074	40
EPS diluted (HUF) (from unadjusted net earnings)	765	1,074	40
EPS base (HUF) (from adjusted net earnings)	761	1,085	43
EPS diluted (HUF) (from adjusted net earnings)	761	1,085	43
Comprehensive Income Statement	2016	2017	%
Consolidated after tax profit	202,452	281,339	39
Fair value adjustment of securities available-for-sale (recognised directly through equity)	11,824	15,677	33
Fair value adjustment of derivative financial instruments designated as cash-flow hedge	0	0	
Fair value adjustment of strategic open FX position hedging net investment in foreign operations	525	155	(70)
Foreign currency translation difference	24,554	(20,535)	(184)
Change of actuarial losses (IAS 19)	61	(241)	(495)
Net comprehensive income	**239,416**	**276,395**	**15**
o/w Net comprehensive income attributable to equity holders	238,775	276,222	16
Net comprehensive income attributable to non-controlling interest	641	173	(73)

Average exchange rate of the HUF	2016 HUF	2017 HUF	Change %
HUF/EUR	311	309	-1
HUF/CHF	286	279	-3
HUF/USD	281	274	-3

[1] In case of the Romanian and Slovakian bank the revaluation result of certain intra-group swaps is presented on a net basis on the net interest income line in the consolidated adjusted P&L structure (in the accounting P&L the impact of these swaps is recognized on 3 different lines: the net interest income, the foreign exchange gains and losses, and the result of derivative financial instruments line, latter is presented within the net other non-interest result line).
this adjustment was retrospectively corrected from 4Q 2016.
This step doesn't affect the accounting P&L, but it triggers changes on the *Foreign exchange result, net* and the *Net other non-interest result* (both being part of the *Other net non-interest income*) in the adjusted P&L – in the same amount, but with opposite sign. Therefore, the change doesn't affect the amount of *Other net non-interest income* line and thus, the after tax results.

ASSET-LIABILITY MANAGEMENT

Similar to previous periods OTP Group maintained a strong and safe liquidity position…

The primary objective of OTP Group in terms of asset-liability management has not changed, that is to ensure that the Group's liquidity is maintained at a safe level.

Refinancing sources of the European Central Bank are still available for OTP (EUR 304 million). As a result of the high level of liquidity reserves, the Group could safely function without considerable fund raising (except for the mortgage bond issuances due to regulatory requirements).

Even with the liquidity absorbing effect of acquisitions (EUR 845 million), total liquidity reserves of OTP Bank remained steadily and substantially above the safety level. As of 31 December 2017 the gross liquidity buffer was around EUR 8.3 billion equivalent. This buffer is significantly higher than the maturing debt within one year and the reserves required to protect against possible liquidity shocks. Due to governmental FX lending measures and FX loan conversion FX liquidity need of the Group has considerably declined. The maturing long term FX-swaps were not refinanced and the ECB refinancing facilities are currently not utilized and the FX liquidity reserves are at safe levels (at EUR 1.08 billion on 31 December 2017).

The volume of issued securities increased by 70% y-o-y, mainly because in order to comply with a new liquidity ratio introduced by the National Bank of Hungary OTP Group sold about HUF 148 billion mortgage bonds to external counterparties in the first half of 2017 (issued by OTP Mortgage Bank). The inflow from this was invested into government bonds and mortgage bonds issued by other banks.

On the yearly basis the Hungarian retail bond portfolio shrank by HUF 30 billion (-82%).

The volume of subordinated debt was practically flat y-o-y.

…and kept its interest-rate risk exposures low.

Interest-rate risk exposure of OTP Group is determined primarily by the positions of OTP Bank Plc. and OTP Mortgage Bank Ltd. Due to the forint liabilities on OTP Bank's balance sheet, which respond to yield changes only to a moderate extent, the Bank has an interest-rate risk exposure resulting from its business operations. The Bank considers the reduction and closing of this exposure as a strategic matter. Consequently, it has been reducing its interest-rate risk exposure through the purchase of fixed-rate government securities in order to offset the negative impact of declining yields on net interest income.

Market Risk Exposure of OTP Group

The consolidated capital requirement of the trading book positions, the counterparty risk and the FX risk exposure represented HUF 45.7 billion in total, primarily due to the capital requirement of the FX risk exposure.

OTP Group is an active participant of the international FX and derivative market. Open FX positions of group members are restricted to individual and global net open position limits (overnight and intraday), and to stop-loss limits. The open positions of the group members outside Hungary except for the Bulgarian DSK Bank – the EUR/BGN exposure of DSK under the current exchange rate regime does not represent real risk – were negligible measured against either the balance sheet total or the regulatory capital. Therefore, the group level FX exposure was concentrated at OTP Bank. Thus the main part of the FX exposure booked at OTP Bank – in line with the previous years' practice – was the strategic open FX position (EUR 310 million) kept to hedge the currency risk of the expected FX-denominated net earnings of the main foreign subsidiaries.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF OTP GROUP

Main components of balance sheet	2016 HUF million (Restated)	2017 HUF million	Change %
TOTAL ASSETS	**11,209,041**	**13,190,228**	**18**
Cash and amount due from banks	1,625,357	1,198,046	(26)
Placements with other banks	363,530	462,180	27
Financial assets at fair value	189,778	344,417	81
Securities available-for-sale	1,527,093	2,174,718	42
Net customer loans	5,736,231	6,987,834	22
Net customer loans (FX adjusted[1])	**5,665,091**	**6,987,834**	**23**
Gross customer loans	6,680,504	7,690,419	15
Gross customer loans (FX adjusted[1])	**6,571,364**	**7,690,419**	**17**
o/w Retail loans	4,332,268	4,864,153	12
Retail mortgage loans (incl. home equity)	2,331,032	2,445,031	5
Retail consumer loans	1,488,640	1,875,136	26
SME loans	512,596	543,986	6
Corporate loans	1,977,952	2,562,164	30
Loans to medium and large corporates	1,904,206	2,362,104	24
Municipal loans	73,746	200,060	171
Car financing loans	214,503	263,943	23
Bills and accrued interest receivables related to loans	46,641	158	(100)
Allowances for loan losses	(944,273)	(702,585)	(26)
Allowances for loan losses (FX adjusted[1])	(906,273)	(702,585)	(22)
Equity investments	9,837	12,269	25
Securities held-to-maturity	1,114,227	1,310,331	18
Premises, equipment and intangible assets, net	355,516	413,389	16
o/w Goodwill, net	104,282	100,976	(3)
Premises, equipment and other intangible assets, net	251,234	312,414	24
Other assets	287,473	287,044	0
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**11,209,041**	**13,190,228**	**18**
Liabilities to credit institutions and governments	543,774	472,068	(13)
Customer deposits	8,540,584	10,233,471	20
Customer deposits (FX adjusted[1])	**8,428,360**	**10,233,471**	**21**
o/w Retail deposits	6,065,374	7,271,548	20
Household deposits	5,075,399	6,079,930	20
SME deposits	989,976	1,191,619	20
Corporate deposits	2,347,342	2,947,248	26
Deposits to medium and large corporates	1,806,008	2,257,993	25
Municipal deposits	541,334	689,255	27
Accrued interest payable related to customer deposits	15,644	14,675	(6)
Issued securities	146,900	250,320	70
o/w Retail bonds	36,921	6,500	(82)
Issued securities without retail bonds	109,978	243,821	122
Other liabilities	479,676	518,286	8
Subordinated bonds and loans[2]	77,458	76,028	(2)
Total shareholders' equity	**1,420,650**	**1,640,055**	**15**
Indicators	2016	2017	pps
Loan/deposit ratio (FX adjusted[1])	78%	75%	(2)
Net loan/(deposit + retail bond) ratio (FX adjusted[1])	66%	68%	2
90+ days past due loan volume	975,952	707,211	(28)
90+ days past due loans/gross customer loans	14.7%	9.2%	(5.5)
Total provisions/90+ days past due loans	96.8%	99.3%	2.6
Consolidated capital adequacy - Basel3	2016 (Restated)	2017	%/pps
Capital adequacy ratio (consolidated, IFRS)	16.0%	14.6%	(1.4)
Tier1 ratio	13.5%	12.7%	(0.9)
Common Equity Tier1 ('CET1') capital ratio	13.5%	12.7%	(0.9)
Regulatory capital (consolidated)	1,079,167	1,228,628	14
o/w Tier1 Capital	911,431	1,062,701	17
o/w Common Equity Tier1 capital	911,431	1,062,701	17
Tier2 Capital	167,736	165,927	(1)
o/w Hybrid Tier2	89,935	89,935	0
Consolidated risk weighted assets (RWA) (Credit&Market&Operational risk)	6,730,467	8,389,920	25
o/w RWA (Credit risk)	5,344,636	6,795,559	27
RWA (Market & Operational risk)	1,385,831	1,594,361	15
Closing exchange rate of the HUF	2016 HUF	2017 HUF	Change %
HUF/EUR	311	310	0
HUF/CHF	289	265	(8)
HUF/USD	294	259	(12)

[1] For the FX adjustment, the closing cross currency rates for the current period were used to calculate the HUF equivalent of loan and deposit volumes in the base periods.
[2] The ICES bonds are considered as Tier2 debt, but accounting-wise they are treated as part of the shareholders' equity.

OTP BANK'S HUNGARIAN CORE BUSINESS

OTP Core Statement of profit or loss:

Main components of the Statement of profit or loss	2016 HUF million	2017 HUF million	Change %
After tax profit without the effect of adjustments	122,194	168,576	38
Corporate income tax	(29,680)	(16,986)	(43)
Pre-tax profit	151,874	185,562	22
Operating profit	143,680	150,833	5
Total income	354,698	365,591	3
Net interest income	235,871	234,304	(1)
Net fees and commissions	100,213	109,128	9
Other net non-interest income	18,614	22,159	19
Operating expenses	(211,018)	(214,758)	2
Total risk costs	6,104	30,784	404
Provisions for possible loan losses	14,036	33,586	139
Other provisions	(7,933)	(2,803)	(65)
Total one-off items	2,090	3,945	89
Gain on the repurchase of own Upper and Lower Tier2 Capital	0	0	0
Revaluation result of the treasury share swap agreement	2,090	3,945	89
Revenues by Business Lines			
RETAIL			
Total income	243,375	238,685	(2)
Net interest income	152,141	139,829	(8)
Net fees and commissions	87,333	95,348	9
Other net non-interest income	3,901	3,509	(10)
CORPORATE			
Total income	40,507	41,177	2
Net interest income	26,558	27,937	5
Net fees and commissions	12,808	12,215	(5)
Other net non-interest income	1,140	1,026	(10)
Treasury ALM			
Total income	66,824	76,295	14
Net interest income	57,172	66,539	16
Net fees and commissions	73	1,566	
Other net non-interest income	9,579	8,191	(14)
Indicators	2016 (Restated)	2017	pps
ROE	9.8%	12.3%	2.5
ROA	1.8%	2.3%	0.5
Operating profit margin	2.1%	2.1%	(0.1)
Total income margin	5.23%	5.02%	(0.22)
Net interest margin	3.48%	3.22%	(0.27)
Net fee and commission margin	1.48%	1.50%	0.02
Net other non-interest income margin	0.27%	0.30%	0.03
Operating costs to total assets ratio	3.1%	2.9%	(0.2)
Cost/income ratio	59.5%	58.7%	(0.7)
Cost of risk/average gross loans[2]	(0.57%)	(1.23%)	(0.66)
Cost of risk/average gross loans (FX adjusted)[2]	(0.57%)	(1.23%)	(0.66)
Effective tax rate	19.5%	9.2%	(10.4)

[1] In case of the Revenue by business lines table a new estimate was implemented from 3Q 2017, therefore these numbers' comparability with previous periods is limited.

[2] Negative *Cost of risk/average gross loan volumes* indicators imply provision release.

Main components of OTP Core's Statement of financial position:

Main components of balance sheet closing balances	2016 HUF million (Restated)	2017 HUF million	Change %
Total Assets	7,148,673	7,704,135	8
Net customer loans	2,398,694	2,634,920	10
Net customer loans (FX adjusted)	**2,394,163**	**2,634,920**	**10**
Gross customer loans	2,610,277	2,793,871	7
Gross customer loans (FX adjusted)	**2,603,380**	**2,793,871**	**7**
Retail loans	1,747,978	1,823,116	4
Retail mortgage loans (incl. home equity)	1,274,813	1,275,655	0
Retail consumer loans	315,348	372,006	18
SME loans	157,818	175,455	11
Corporate loans	855,402	970,755	13
Loans to medium and large corporates	831,988	934,952	12
Municipal loans	23,413	35,803	53
Provisions	(211,583)	(158,951)	(25)
Provisions (FX adjusted)	**(209,217)**	**(158,951)**	**(24)**
Deposits from customers + retail bonds	4,942,606	5,388,080	9
Deposits from customers + retail bonds (FX adjusted)	**4,913,226**	**5,388,080**	**10**
Retail deposits + retail bonds	3,183,832	3,477,054	9
Household deposits + retail bonds	2,619,361	2,820,700	8
o/w: Retail bonds	36,921	6,500	(82)
SME deposits	564,471	656,354	16
Corporate deposits	1,729,393	1,911,026	11
Deposits to medium and large corporates	1,219,920	1,291,956	6
Municipal deposits	509,474	619,071	22
Liabilities to credit institutions	329,442	285,539	(13)
Issued securities without retail bonds	192,097	288,799	50
Total shareholders' equity	1,312,464	1,430,256	9
Loan Quality	2016	2017	%/pps
90+ days past due loan volume (in HUF million)	255,841	179,618	(30)
90+ days past due loans/gross customer loans	9.8%	6.4%	(3.4)
Total provisions/90+ days past due loans	82.7%	88.5%	5.8
Market Share[1]	2016	2017	pps
Loans	20.2%	20.6%	0.4
Deposits	26.5%	27.6%	1.1
Total Assets	24.5%	25.7%	1.2
Performance Indicators	2016 (Restated)	2017	pps
Net loans to (deposits + retail bonds) (FX adjusted)	49%	49%	0
Leverage (closing Shareholder's Equity/Total Assets)	18.4%	18.6%	0.2
Leverage (closing Total Assets/Shareholder's Equity)	5.4x	5.4x	(0.1x)
Capital adequacy ratio (OTP Bank, non-consolidated, Basel3, HAS until 4Q 2016, IFRS from 1Q 2017)	27.7%	31.4%	3.7
Common Equity Tier1 ratio (OTP Bank, non-consolidated, Basel3, HAS until 4Q 2016, IFRS from 1Q 2017)	24.8%	29.0%	4.2

[1] Market share figures changed retroactively due to data revision.

- ***2017 adjusted profit after tax of OTP Core reached HUF 168.6 billion (+38% y-o-y), supported also by the lower effective tax rate; the before tax profit advanced by 22% y-o-y***
- ***The operating profit increased by 5% y-o-y, mainly because of the 9% higher net fee income. Net interest income remained stable (-0.7% y-o-y) despite the 27 bps margin erosion. Operating costs went up by 2%***
- ***In 2017 y-o-y increasing provision releases were booked. The DPD90+ ratio kept further decreasing***
- ***Performing loan volume growth accelerated to 11% in 2017, after a 5% increase in 2016 as a whole (without the AXA portfolio take-over). Within that, consumer and corporate loan growth was outstanding (+25% and +20%, respectively)***
- ***The annual new mortgage disbursements grew by 30% y-o-y; the performing mortgage loan growth already shifted into positive territory (+2% y-o-y)***

Note: the scope of companies comprising OTP Core was extended by the following companies from 2017: OTP Card Factory Ltd, OTP Real Estate Lease Ltd, OTP Facility Management Ltd. and MONICOMP Ltd. (earlier these entities' results were presented within Other Hungarian Subsidiaries).

The aggregated gross loan portfolio of those companies that were included into OTP Core from 2017 amounted to HUF 21.3 billion, while the performing loan volumes represented HUF 17.7 billion at the end of 2017 (of which HUF 15.9 billion mortgages, HUF 0.2 billion consumer loans, HUF 1.4 billion micro and small enterprise exposures and HUF 0.2 billion corporate loans). The aggregated total after tax profit of these entities amounted to HUF 1.2 billion in 2017.

P&L developments

Without the effect of adjustment items[12] **OTP Core** posted a profit after tax of HUF 168.6 billion in 2017, implying a 38% y-o-y increase.

The annual effective corporate income tax rate was 9.2% versus 19.5% for the base period. Effective from 1 January 2017 the Hungarian corporate tax rate was reduced uniformly to 9%. Since the switch from Hungarian Accounting Standards into IFRS financials became effective from January 2017 in Hungary, from 2017 the corporate income tax line of OTP Core wasn't distorted by the tax shield effect[13] related to the HUF exchange rate movements.

The profit before tax improved by 22% y-o-y supported by both higher operating result and lower total risk costs. On quarterly basis the profit before tax moderated by 34% q-o-q because cost growth exceeded revenue growth, and q-o-q lower provision releases were accounted for.

The total income without one-off items went up by 3% y-o-y. It was positive that the net interest income basically stabilized y-o-y (-0.7%). Gross interest revenues benefited from dynamic loan volume growth: apart from the strong organic growth, the portfolio was also boosted by the take-over of the AXA volumes in November 2016. Furthermore, the placement of additional liquidity generated by the deposit inflow added to the interest revenues. It was also positive for revenues that the liquidity reserves have been gradually shifting toward longer duration and higher yielding Hungarian government bonds, and this trend continued throughout 2017. The increasing liquid assets and thus, total asset base in the wake of expanding deposits, however, diluted the net interest margin. The net interest margin was also negatively affected by the continuing erosion of short-term reference rates (used as benchmark rates for variable rate loans). The net interest margin declined by 27 bps compared to the previous year.

The net fee and commission income increased by 9% y-o-y. The improvement was due to stronger card-related fee revenues induced by growing transactional turnover. However, the deposit and transaction-related, as well as loan-related and securities fee income developed nicely, too. According to the announcement made by the Hungarian Government Debt Management Agency the distribution fees on certain household targeted government bonds were reduced from 17 July 2017.

The strengthening of the business activity is illustrated by the agreement signed on 29 June 2017 with the Hungarian Development Bank under which OTP Bank, as the leader of a consortium, joined the network of HDB's selling points through which OTP distributes EU loans and other loan products combined with non-refundable funds. As part of HDB's selling points, these products are available in 163 OTP branches. By the end of 2017 applications in the amount of almost HUF 7 billion were registered.

The other net non-interest income (without one-offs) grew by 19% or HUF 3.5 billion y-o-y, driven by several larger items. Interest revenues realized on trading securities explained an increase of HUF 1.8 billion, whereas the other income (not eliminated at OTP Core level) of companies that were included into OTP Core from the beginning of 2017 added HUF 1.0 billion.

The total amount of one-off revenue items comprised HUF 3.9 billion in 2017, mostly related to a dividend income realized in 2Q on the treasury share swap agreement.

2017 operating expenses increased moderately by 2% y-o-y as a result of higher personnel expenses. The inclusion of the above-mentioned four Hungarian entities into OTP Core from 2017 did not have a material impact on the dynamics of operating expenses due to eliminations, however it did influence the structure of operating costs (as a result, personnel costs grew, while administrative expenses declined). The total number of employees at OTP Core increased by 757 people y-o-y, of which the four new entities added 581 people.

[12] Adjustments emerged in the presented periods: special tax on financial institutions, dividends and net cash transfers, goodwill/investment impairment charges, impact of fines imposed by the Hungarian Competition Authority, the corporate tax impact of switching to IFRS from HAR in Hungary, the revaluation of deferred taxes recognized in the P&L due to the corporate tax rate cut in Hungary, and the gain on the sale of Visa Europe shares.

[13] In 2016 this caused HUF 2.0 billion additional tax payment. The reason for this was that in the base period the closing rate of HUF typically depreciated against the functional currencies of the subsidiary investments. Therefore a revaluation gain was realized under Hungarian Accounting Standards when translating the value of these subsidiary investments into HUF, increasing the corporate tax base. So, the corporate income tax both under HAS and IFRS was higher in the base period (ceteris paribus).

The y-o-y change of cumulated personnel expenses was shaped by the following factors: at OTP Bank there was an average base salary increase of 4% in April 2016, however its effect was counterbalanced by the 5 pps cut in social and health care contributions effective from 1 January 2017. The take-over of the Hungarian operation of AXA in November 2016 had an impact mainly on personnel costs. Furthermore, in April 2017 there was a base salary increase for employees working in the sales network, whereas the HQ employees received a base salary increase from July 2017.

Starting from January 2018 the social and health care contributions to be paid by employers were reduced by another 2.5 pps.

Operational costs were partly influenced by the increasing advisory and marketing costs.

On the total risk costs line a release of HUF 30.8 billion was recognized in 2017.

The DPD90+ volumes adjusted for FX rate movements and sales and write offs declined by HUF 14 billion in 2017 (whereas the decline was HUF 11 billion in 2015 and HUF 5 billion in 2016, respectively, latter adjusted for the technical effect of the AXA portfolio take-over). HUF 58 billion non-performing exposures were sold or written off during the last twelve months. The DPD90+ ratio moderated by 3.4 pps y-o-y to 6.4%.

Balance sheet trends

Loan volume growth at OTP Core further accelerated in 2017, following the turnaround reached in 2016. The FX-adjusted gross loan portfolio increased by 7% y-o-y. However, due to the sales and write-offs of non-performing loans, the performing (DPD0-90) loan volume developments are more illustrative: performing loans advanced by 11% y-o-y, which is stronger than the full-year 2016 dynamics (+5% without the take-over of the AXA portfolio).

The organic loan portfolio expansion was fuelled mainly by the corporate sector: the performing large corporate book advanced by 18% y-o-y, whereas the SME exposures grew by 13% over the same period. Local government exposures – from a low base though – advanced by 53% y-o-y.

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 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.

On the retail side, the stock of mortgage loans has finally switched into growth mode in the second half of 2017; performing mortgage loans advanced by 2% y-o-y. The full-year amount of mortgage loan disbursements showed a 30% increase y-o-y. OTP Bank’s market share in new mortgage loan contractual amounts reached 27.7% in 2017.

On 19 May 2017 the NBH published the „customer-friendly housing loan” criteria for the newly issued housing loans and banks could apply for the approval from 1st June 2017. On 1 August 2017 OTP Mortgage Bank received the approval of NBH to sell its qualified customer friendly mortgage loan product. The Bank started to offer its fixed 10 year certified customer-friendly product from the second half of August, whereas the fixed 5 and 20 years fixed certified customer-friendly products became available from December.

OTP Bank helps Hungarian families realize their housing aims through its active participation in the Housing Subsidy Scheme for Families (CSOK), too.In 2017 10,800 applications for the CSOK subsidy were registered at OTP Bank with a value of over HUF 39 billion in 2017. Applicants also combined CSOK subsidy with subsidized or market-based loan applications in the amount of HUF 63 billion in 2017. State subsidized housing loan applications in 2017 represented HUF 52.6 billion, up by 13% y-o-y due to the additional demand generated by the CSOK.

Performing consumer loan volumes advanced by 25% y-o-y (FX adjusted). The increase was supported by few big ticket Lombard loans disbursed in 2Q 2017 in the amount of HUF 29 billion; without these the y-o-y growth would have been 14%.

Performing cash loan volume growth was outstanding: the yearly increase accelerated to 34%. OTP’s market share in the cash loan segment remained strong in terms of the outstanding stock (34.1% at the end of December). OTP Bank was the first Bank in Hungary which fully digitalized the whole process of cash loan sales.

After gradual erosion in previous periods, purchase loan and credit card loan volumes stabilized in 3Q, and 4Q already saw expanding volumes in both segments. Thus, performing credit card loans stabilized even in y-o-y comparison, and purchase loans grew by 4%.

FX-adjusted deposit volumes (including retail bonds) increased by 10% y-o-y. The yearly growth was equally supported by retail and corporate expansion. The overall volume of retail savings kept at OTP Bank went on increasing dynamically in 2017, fuelled by the growth of the securities portfolio. The gradual shift of household savings towards securities is in line with general market trends.

OTP FUND MANAGEMENT (HUNGARY)

Changes in assets under management and financial performance of OTP Fund Management:

Main components of P&L account	2016 HUF million	2017 HUF million	Change %
After tax profit w/o dividends and net cash transfer	6,658	8,259	24
Income tax	(1,379)	(811)	(41)
Profit before income tax	8,038	9,070	13
Operating profit	7,816	9,089	16
Total income	10,232	11,763	15
Net interest income	0	0	
Net fees and commissions	10,217	11,765	15
Other net non-interest income	15	(2)	
Operating expenses	(2,416)	(2,674)	11
Other provisions	222	(20)	(109)
Main components of balance sheet closing balances	**2016**	**2017**	**%**
Total assets	17,780	20,587	16
Total shareholders' equity	14,995	17,958	20
Asset under management	**2016 HUF billion**	**2017 HUF billion**	**%**
Assets under management, total (w/o duplicates)	**1,530**	**1,519**	**(1)**
Retail investment funds (closing, w/o duplicates)	1,000	942	(6)
Volume of managed assets (closing, w/o duplicates)	530	576	9
Volume of investment funds (with duplicates)	1,153	1,180	2
money market	295	189	(36)
bond	412	295	(28)
mixed	25	56	122
security	123	158	29
guaranteed	61	49	(20)
other	237	434	83

OTP Fund Management realized its highest ever after tax profit of HUF 8.3 billion in 2017 underpinning a 24% y-o-y increase. The operating profit grew by 16% y-o-y, which was the result of the dynamically increasing net fees and commissions income (+15% y-o-y); at the same time operating expenses increased more moderately (+11% y-o-y). The surging fees and commissions income was mainly reasoned by the higher performance fees.

Considering the whole market, in 2017 the managed assets of BAMOSZ members increased y-o-y. Equity and mixed funds as well as total return funds and real estate funds experienced increasing capital inflow, while money market funds, bond funds and protected funds suffered an outflow.

Assets under management at the Company expanded by 2% y-o-y. The structural shift within the different types of investment funds influenced the portfolio of OTP Fund Management similar to the whole market in 2017. The volume of mixed funds, equity funds and other asset classes grew, while money market fund, debt funds and fixed income funds shrunk.

The market share of OTP Fund Management (without duplications) was 23.7% at the end of 2017, up by 0.4 pp y-o-y. The Company retained its market leading position.

MERKANTIL GROUP (HUNGARY)

Performance of Merkantil Bank and Car:

Main components of P&L account	2016 HUF million	2017 HUF million	Change %
After tax profit w/o dividends and net cash transfer	2,605	8,260	217
Income tax	(43)	(357)	
Profit before income tax	2,648	8,618	225
Operating profit	7,370	6,229	(15)
Total income	13,427	12,423	(7)
Net interest income	16,837	12,477	(26)
Net fees and commissions	(991)	(366)	(63)
Other net non-interest income	(2,419)	311	
Operating expenses	(6,057)	(6,194)	2
Total provisions	(4,722)	2,389	
Provision for possible loan losses	(3,374)	2,049	
Other provision	(1,348)	340	
Main components of balance sheet closing balances	**2016**	**2017**	**%**
Total assets	349,891	369,180	6
Gross customer loans	286,296	292,925	2
Gross customer loans (FX-adjusted)	285,807	292,925	2
Retail loans	25,483	28,826	13
Corporate loans	87,176	89,445	3
Car financing loans	173,148	174,654	1
Allowances for possible loan losses	(37,051)	(21,000)	(43)
Allowances for possible loan losses (FX-adjusted)	(36,995)	(21,000)	(43)
Deposits from customers	34,554	20,799	(40)
Deposits from customer (FX-adjusted)	34,554	20,799	(40)
Retail deposits	28,494	19,250	(32)
Corporate deposits	6,060	1,549	(74)
Liabilities to credit institutions	286,401	303,371	6
Issued securities	3	0	(100)
Total shareholders' equity	24,530	30,268	23
Loan Quality	**2016**	**2017**	**%/pps**
90+ days past due loan volume (in HUF million)	32,356	16,874	(48)
90+ days past due loans/gross customer loans	11.3%	5.8%	(5.5)
Cost of risk/average gross loans	1.21%	(0.71%)	(1.92)
Cost of risk/average (FX-adjusted) gross loans	1.22%	(0.71%)	(1.92)
Total provisions/90+ days past due loans	114.5%	124.5%	9.9
Performance Indicators	**2016**	**2017**	**pps**
ROA	0.8%	2.3%	1.6
ROE	11.5%	29.4%	17.9
Total income margin	3.95%	3.49%	(0.47)
Net interest margin	4.95%	3.50%	(1.45)
Cost/income ratio	45.1%	49.9%	4.7

The **Merkantil Bank and Car** posted a record high aggregated adjusted after tax profit of HUF 8.3 billion in 2017, exceeding more than three times the result for the base period. The strong result was mainly attributable to the positive development of loan-related risk costs: in 2017 a provision release of altogether HUF 2.4 billion was booked.

Total income grew by 7% y-o-y. The structure of revenues was influenced by two items with a rather technical nature. On one hand, due to the shift to IFRS from 2017 the negative revaluation result related to intragroup securities transactions was reclassified to the net interest income line from the other net non-interest income line, resulting in a y-o-y HUF 3.4 billion NII decrease in 2017 (simultaneously other net non-interest income increased in the same amount). On the other hand, also due to the switch to IFRS from 2017 certain items – previously treated as fee expenses – have been reclassified into NII starting from 1Q 2017. This had a negative effect of HUF 1.2 billion on NII in 2017. As a result, the annual net interest income decreased by HUF 4.4 billion (-26% y-o-y).

Annual operating expenses grew by 2% y-o-y, fuelled mainly by higher personnel expenses and other general costs.

In 2017 DPD90+ volumes (adjusted for FX rate changes and sold and written off volumes) decreased by HUF 1.1 billion against the increase of HUF 5.1 billion in 2016. The ratio of DPD90+ loans decreased by 5.5 pps y-o-y to 5.8%, while in 2017 HUF 14.2 billion problem loans were sold or written off.

The FX-adjusted performing loan portfolio expanded by 9% on a yearly basis. The volume of performing SME, corporate and car financing exposures all increased on a yearly basis (+13%, +3% and 11%, respectively). Annual total new loan origination grew by 22% y-o-y, within that the volume of newly disbursed car loans surged by 29% y-o-y. Merkantil retained its market leading position both in terms of new loan disbursements and volumes.

IFRS REPORTS OF THE MAIN FOREIGN SUBSIDIARIES OF OTP BANK

DSK GROUP (BULGARIA)

Performance of DSK Group:

Main components of P&L account	2016 HUF million	2017 HUF million	Change %
After tax profit without the effect of adjustments	47,385	47,122	(1)
Income tax	(4,997)	(4,920)	(2)
Profit before income tax	52,381	52,042	(1)
Operating profit	70,113	61,461	(12)
Total income	112,503	108,290	(4)
Net interest income	84,023	72,257	(14)
Net fees and commissions	26,034	27,714	6
Other net non-interest income	2,445	8,319	240
Operating expenses	(42,391)	(46,830)	10
Total provisions	(17,731)	(9,419)	(47)
Provision for possible loan losses	(12,980)	(3,571)	(72)
Other provision	(4,751)	(5,848)	23
Main components of balance sheet closing balances	2016	2017	%
Total assets	1,852,901	1,925,740	4
Gross customer loans	1,151,210	1,184,871	3
Gross customer loans (FX-adjusted)	1,147,870	1,184,871	3
Retail loans	822,276	827,328	1
Corporate loans	325,594	357,543	10
Allowances for possible loan losses	(142,386)	(109,137)	(23)
Allowances for possible loan losses (FX-adjusted)	(141,931)	(109,137)	(23)
Deposits from customers	1,547,669	1,626,924	5
Deposits from customer (FX-adjusted)	1,534,912	1,626,924	6
Retail deposits	1,319,975	1,453,267	10
Corporate deposits	214,937	173,657	(19)
Liabilities to credit institutions	21,782	4,802	(78)
Total shareholders' equity	247,267	250,296	1
Loan Quality	2016	2017	%/pps
90+ days past due loan volume (in HUF million)	131,889	93,936	(29)
90+ days past due loans/gross customer loans	11.5%	7.9%	(3.5)
Cost of risk/average gross loans	1.11%	0.31%	(0.80)
Cost of risk/average (FX-adjusted) gross loans	1.12%	0.31%	(0.81)
Total provisions/90+ days past due loans	108.0%	116.2%	8.2
Performance Indicators	2016	2017	pps
ROA	2.6%	2.5%	(0.1)
ROE	19.8%	20.0%	0.2
Total income margin	6.16%	5.77%	(0.38)
Net interest margin	4.60%	3.85%	(0.75)
Cost/income ratio	37.7%	43.2%	5.6
Net loans to deposits (FX-adjusted)	66%	66%	1
FX rates	2016 HUF	2017 HUF	%
HUF/BGN (closing)	159.0	158.6	0
HUF/BGN (average)	159.3	158.1	(1)

- ***2017 ROE stood at 20.0%***
- ***HUF 47.1 billion profit after tax for the year, practically flat y-o-y, as a result of moderating operating profit (-12%) and almost halving risk cost***
- ***Stronger business activity: performing loan portfolio grew by 7% y-o-y supported by further strengthening corporate disbursements and mortgage loan sales***

DSK Group posted an after tax profit of HUF 47.1 billion in 2017, which translates into a 20.0% return on equity. On the yearly basis the profit was practically flat due to the 12% weaker operating profit and the 47% lower total provisions.

The 12% y-o-y decrease in operating profit to a great extent reflected the 14% y-o-y erosion in net interest income. The 2017 net interest margin shrank by 75 bps to 3.85. The y-o-y shrinking NIM is reasoned by the continuous repricing of assets amid the decreasing yield environment, also lower interest income was realized on household loans due to refinancing. Furthermore, the higher average total assets stemming from the growing excess liquidity of the bank contributed to the NIM contraction, and also the fact that items related to the fair value adjustment of derivative instruments, that were previously accounted in the other net non-interest income line were presented within the NII since the beginning of 2017 (this explains about HUF 2 billion from the yearly growth of other income and the yearly decline of interest income). In total, however, in 2017 NIM shrank less than in 2016.

The net fee and commission income improved by 6% y-o-y due to the favourable disbursement dynamics, pricing changes and growth of transactions-related fee revenues.

Other net non-interest income increased by HUF 5.9 billion y-o-y. This was reasoned mostly by the revaluation gains on derivative instruments and securities portfolio, the above mentioned +HUF 2 billion effect related to the FVA of derivative instruments (together +HUF 3.7 billion) and higher treasury income (+HUF 0.8 billion). Simultaneously, interest claims related to off-balance sheet items of the Bulgarian factoring company have been revised, resulting in a HUF 1.1 billion other non-interest revenue booked in the Bulgarian P&L in 2017.

The operating expenses increased by 10% y-o-y, the key reasons were the higher personnel costs, IT expenses, charges paid to supervisory authorities and advisory costs related to the business development project in the retail area. Cost-to-income ratio increased by 5.6 pps to 43.2% y-o-y.

Total risk cost in 2017 declined by 47% on the yearly basis, within that provisions for possible loan losses decreased by 72%, while other risk cost went up by 23%. Risk cost rate in 2017 shrank by 80 bps to 31 bps y-o-y.

Favourable credit quality trends have remained intact. The FX-adjusted DPD90+ volumes excluding the impact of loan sales and write-offs increased by HUF 1.4 billion y-o-y.

The DPD90+ ratio decreased by 3.5 pps y-o-y to 7.9%. The main reason for the improvement of the ratio is, that in 2017 around HUF 20 billion non-performing portfolio was sold/written-off, half of it came from the mortgage segment.

The FX-adjusted growth of performing loans reached 7% y-o-y, supported by strengthening disbursement activity. Mortgage loan disbursement further strengthened, it went up by 50% y-o-y. Performing mortgage loan volumes grew by 7% y-o-y on an FX-adjusted basis. The performing consumer loan portfolio went up by 2% y-o-y on an FX-adjusted basis.

Corporate and SME loan disbursements surged by 115% y-o-y in 2017. The performing corporate loan portfolio grew by 13% y-o-y, while the SME book showed similar growth dynamics.

The FX-adjusted deposit base expanded by 6% y-o-y. Retail deposits kept on increasing (+10% y-o-y). The volatility of corporate deposits throughout 2017 was related to a large corporate client's placement and withdrawals, on the whole the corporate deposit portfolio shrank by 19% y-o-y. Due to the favourable balance sheet movements, the net loan-to-deposit ratio increased to 66% (+1 pps y-o-y).

The capital adequacy ratio of DSK Bank calculated in accordance with local regulation stood at 17.2% at the end of 2017.

OTP BANK RUSSIA

Performance of OTP Bank Russia:

Main components of P&L account	2016 HUF million	2017 HUF million	Change %
After tax profit w/o dividends and net cash transfer	20,535	27,771	35
Income tax	(6,480)	(7,514)	16
Profit before income tax	27,015	35,285	31
Operating profit	61,866	72,015	16
Total income	106,155	125,290	18
Net interest income	91,816	101,326	10
Net fees and commissions	14,098	22,975	63
Other net non-interest income	240	989	312
Operating expenses	(44,289)	(53,276)	20
Total provisions	(34,851)	(36,730)	5
Provision for possible loan losses	(33,988)	(35,880)	6
Other provision	(863)	(850)	(2)
Main components of balance sheet closing balances	**2016**	**2017**	**%**
Total assets	622,666	638,031	2
Gross customer loans	490,086	531,280	8
Gross customer loans (FX-adjusted)	459,665	531,280	16
Retail loans	422,355	475,007	12
Corporate loans	36,215	56,168	55
Car financing loans	1,095	105	(90)
Gross DPD0-90 customer loans (FX-adjusted)	366,982	447,538	22
Retail loans	335,128	395,997	18
Allowances for possible loan losses	(116,458)	(112,158)	(4)
Allowances for possible loan losses (FX-adjusted)	(109,071)	(112,158)	3
Deposits from customers	345,241	353,306	2
Deposits from customer (FX-adjusted)	323,025	353,306	9
Retail deposits	262,161	284,714	9
Corporate deposits	60,863	68,592	13
Liabilities to credit institutions	91,641	100,404	10
Issued securities	1,038	353	(66)
Subordinated debt	24,778	22,780	(8)
Total shareholders' equity	125,190	135,213	8
Loan Quality	**2016**	**2017**	**%/pps**
90+ days past due loan volume (in HUF million)	99,024	83,742	(15)
90+ days past due loans/gross customer loans	20.2%	15.8%	(4.4)
Cost of risk/average gross loans	8.18%	7.35%	(0.83)
Cost of risk/average (FX-adjusted) gross loans	8.40%	7.38%	(1.01)
Total provisions/90+ days past due loans	117.6%	133.9%	16.3
Performance Indicators	**2016**	**2017**	**pps**
ROA	4.0%	4.6%	0.7
ROE	20.2%	21.0%	0.8
Total income margin	20.59%	20.91%	0.31
Net interest margin	17.81%	16.91%	(0.90)
Cost/income ratio	41.7%	42.5%	0.8
Net loans to deposits (FX-adjusted)	109%	119%	10
FX rates	**2016 HUF**	**2017 HUF**	**%**
HUF/RUB (closing)	4.8	4.5	(6)
HUF/RUB (average)	4.2	4.7	11

- ***HUF 27.8 billion after tax profit in 2017 (+35% y-o-y) marked an ROE of 21% due to improving operating performance***
- ***Net interest income declined by only 1%y-o-y in RUB terms, with eroding NIM and growing performing loan volumes***
- ***In 2017 loan portfolio quality deterioration moderated, risk cost rate declined to 7.35%***
- ***Performing loan volumes grew by 22% y-o-y***

The HUF denominated financial figures of OTP Bank Russia are distorted by the HUF/RUB moves: the 2017 closing rate showed y-o-y 6% depreciation of RUB against HUF; whereas the yearly average rate appreciated by 11% y-o-y. Therefore, local currency P&L and balance sheet dynamics can be materially different from those in HUF terms.

In 2017 **OTP Bank Russia's** net profit almost reached HUF 27.8 billion underpinning a 35% yearly growth (+22% in RUB terms).

As for the rouble denominated earnings dynamics, operating profit increased by 4% owing to the 6% y-o-y growth of total income, while operating expenses were by 8% higher. Despite narrowing net interest margin net interest income decreased merely 1% on yearly basis in RUB terms. NIM eroded by 1 pp to 16.9%, reasoned partly by the fact that from the beginning of 2017 discounts paid to retail agents related to product sale and certain agent bonuses previously treated as fee expense are now capitalised and treated as part of the amortised cost of the loans, thus these expenses will amortise through interest payment on loans during their lifetime. In 2017 this had around HUF 3 billion negative effect on net interest income.

In 2017 net fee and commission income grew in RUB terms by 47% y-o-y due to insurance fee income on cash loans with insurance policies and other products growing considerably, while commission income generated by credit cards declined due to the shrinkage of the average outstanding portfolio. Furthermore, the above mentioned item affecting fee expenses also contributed to the y-o-y growth of this line.

In 2017 operating expenses grew y-o-y by 8% in RUB terms, within that both personnel and material expenses increased by 10% in RUB terms, while depreciation shrank by 4%. Compared to end-2016 the number of branches have not changed by the end of 2017 (134), while the number of employees (without agents) increased by 4% y-o-y to 4,956.

In 2017 the FX-adjusted increase in DPD90+ loans (adjusted for loan sales and write-offs) amounted to HUF 32.7 billion versus HUF 47.5 billion growth seen in the preceding year (-31% y-o-y The DPD90+ ratio declined by 4.4 pps to 15.8% y-o-y. The improvement was supported by the fact, that in the last 12 months altogether RUB 44.4 billion non-performing loans were sold or written-off.

Risk cost moderated by 6% y-o-y. The risk cost rate in 2017 decreased by 0.8 pp to 7.35% y-o-y.

In 2017 the FX-adjusted performing (DPD0-90) loan portfolio expanded by 22% y-o-y. POS lending strengthened: the 2017 disbursements were higher by 14% y-o-y, so the FX-adjusted performing POS loan portfolio surged by 21% y-o-y. With regards to the credit card segment, the portfolio erosion that has been in place since 3Q 2014 stopped in 3Q 2017 and the portfolio grew marginally in 4Q, still the y-o-y the erosion was 3%. Cash loan disbursements surged by 61% y-o-y in 2017; the FX-adjusted volume of performing cash loans grew by 41% y-o-y. FX-adjusted performing corporate loan volumes kept on growing dynamically (+62% y-o-y), due to the favourable development of large corporate loans, working capital financing and commercial factoring.

FX-adjusted total deposits increased by 9% y-o-y; within that both retail and corporate segments performed well. Retail deposits increased by 9% y-o-y, while the corporate deposit base expanded by 13%. FX-adjusted net loan-to-deposit ratio stood at 119% at the end of 2017 (+10 pps y-o-y).

The capital adequacy ratio of the bank calculated in line with local regulation stood at 15.9% at the end of December (-0.2 pp y-o-y).

TOUCH BANK (RUSSIA)

Performance of Touch Bank:

Main components of P&L account	2016 HUF million	2017 HUF million	Change %
After tax profit w/o dividends and net cash transfer	(5,898)	(7,391)	25
Income tax	1,468	1,816	24
Profit before income tax	(7,366)	(9,208)	25
Operating profit	(7,328)	(7,519)	3
Total income	(122)	1,958	
Net interest income	209	1,767	746
Net fees and commissions	(349)	160	(146)
Other net non-interest income	17	31	79
Operating expenses	(7,205)	(9,477)	32
Total provisions	(38)	(1,689)	
Provision for possible loan losses	(33)	(1,681)	
Other provision	(5)	(8)	59
Main components of balance sheet closing balances	2016	2017	%
Total assets	26,141	33,693	29
Gross customer loans	1,609	12,812	696
Gross customer loans (FX-adjusted)	1,511	12,812	748
Retail loans	1,511	12,812	748
Corporate loans	0	0	
Allowances for possible loan losses	(36)	(1,657)	
Allowances for possible loan losses (FX-adjusted)	(34)	(1,657)	
Deposits from customers	20,455	26,352	29
Deposits from customer (FX-adjusted)	19,206	26,352	37
Retail deposits	19,206	26,352	37
Corporate deposits	0	0	
Liabilities to credit institutions	0	0	
Subordinated debt	0	0	
Total shareholders' equity	5,585	7,142	28
Loan Quality	2016	2017	%/pps
90+ days past due loan volume (in HUF million)	5	1,283	
90+ days past due loans/gross customer loans	0.3%	10.0%	9.7
Cost of risk/average gross loans	8.05%	18.70%	
Cost of risk/average (FX-adjusted) gross loans	8.10%	18.78%	
Total provisions/90+ days past due loans		129.1%	
Performance Indicators	2016	2017	pps
Total income margin	(0.79%)	7.02%	7.80
Net interest margin	1.34%	6.33%	4.99
Net loans to deposits (FX-adjusted)	8%	42%	35
FX rates	2016 HUF	2017 HUF	%
HUF/RUB (closing)	4.8	4.5	(6)
HUF/RUB (average)	4.2	4.7	11

- ***HUF 7.4 billion loss in 2017***
- ***Due to the stringent risk management loan portfolio growth fell short of expectations; closing volume of gross loans was HUF 12.8 billion***
- ***Worsening loan portfolio quality, DPD90+ rate grew to 10%***

Touch Bank is part of OTP Bank Russia from legal point of view, and it is operating under the same banking license, but as a separate digital banking business line. In order to provide transparent information Touch Bank is presented as a separate virtual entity.

Touch Bank remained loss making for the third year of its existence and realised HUF 7.4 billion loss in 2017 (+25% y-o-y in HUF, +13% in RUB terms).

In 2017 total income reached HUF 2 billion due to the higher net interest income (HUF 1.8 billion) resulting from the significant, nevertheless weaker than expected yearly growth of loan volumes. Net fee and commission income turned positive on the yearly basis and amounted to HUF 160 million.

Operating expenses amounted to HUF 9.5 billion in 2017 growing by 19% in RUB terms mostly due to marketing expenses increasing y-o-y; personnel expenses also increased by 6% while depreciation was also higher by 21%.

In spite of the outstanding value proposition the pace of potentially profit generating customers' acquisition still falls short of the management's expectations. Number of activated cards increased by 116 y-o-y in 2017 and almost reached 134 thousand. Gross loans grew further (+748% y-o-y on an FX-adjusted basis) close to HUF 13 billion, however, the pace of accumulation moderated in 2H due to more stringent lending standards introduced in 2Q 2017.

The loan portfolio quality deteriorated, the DPD90+ ratio grew to 10.0%.

Total deposits grew by 37% (FX-adjsuted), and reached RUB 5.9 billion at the end of 2017.

OTP BANK UKRAINE

Performance of OTP Bank Ukraine:

Main components of P&L account	2016 HUF million	2017 HUF million	Change %
After tax profit w/o dividends and net cash transfer	10,202	14,120	38
Income tax	(1,477)	(2,954)	100
Profit before income tax	11,679	17,074	46
Operating profit	22,217	18,876	(15)
Total income	37,304	34,595	(7)
Net interest income	26,478	23,060	(13)
Net fees and commissions	8,746	9,716	11
Other net non-interest income	2,080	1,819	(13)
Operating expenses	(15,087)	(15,719)	4
Total provisions	(10,538)	(1,802)	(83)
Provision for possible loan losses	(11,866)	(1,060)	(91)
Other provision	1,328	(742)	
Main components of balance sheet closing balances	2016	2017	%
Total assets	307,117	312,334	2
Gross customer loans	381,662	287,236	(25)
Gross customer loans (FX-adjusted)	330,200	287,236	(13)
Retail loans	141,749	110,092	(22)
Corporate loans	169,600	158,306	(7)
Car financing loans	18,851	18,838	0
Gross DPD0-90 customer loans (FX-adjusted)	191,098	211,314	11
Retail loans	42,707	44,060	3
Corporate loans	137,555	151,710	10
Car financing loans	10,837	15,544	43
Allowances for possible loan losses	(189,450)	(90,163)	(52)
Allowances for possible loan losses (FX-adjusted)	(164,591)	(90,163)	(45)
Deposits from customers	228,568	234,943	3
Deposits from customer (FX-adjusted)	198,564	234,943	18
Retail deposits	94,151	98,065	4
Corporate deposits	104,413	136,878	31
Liabilities to credit institutions	46,270	33,985	(27)
Total shareholders' equity	24,243	34,079	41
Loan Quality	2016	2017	%/pps
90+ days past due loan volume (in HUF million)	160,009	75,922	(53)
90+ days past due loans/gross customer loans	41.9%	26.4%	(15.5)
Cost of risk/average gross loans	3.03%	0.31%	(2.73)
Cost of risk/average (FX-adjusted) gross loans	3.05%	0.31%	(2.74)
Total provisions/90+ days past due loans	118.4%	118.8%	0.4
Performance Indicators	2016	2017	pps
ROA	3.5%	4.6%	1.1
ROE	n.a.	47.1%	
Total income margin	12.71%	11.19%	(1.52)
Net interest margin	9.02%	7.46%	(1.56)
Cost/income ratio	40.4%	45.4%	5.0
Net loans to deposits (FX-adjusted)	83%	84%	0
FX rates	2016 HUF	2017 HUF	%
HUF/UAH (closing)	10.8	9.2	(15)
HUF/UAH (average)	11.0	10.3	(6)

- ***The Ukrainian subsidiary posted the highest annual ROE within subsidiary banks across the Group (ROE: 47.1%)***
- ***The annual profit increased to HUF 14.1 billion (+38% y-o-y) supported mainly by declining risk costs stemming from favourable credit quality trends***
- ***The DPD90+ rate dropped by 15.5 pps y-o-y to 26.4% reflecting mainly non-performing asset sales/write offs***
- ***Performing loans advanced by 11% y-o-y, while the deposit book grew by 18% (FX-adjusted)***

The financial performance and indicators of OTP Bank Ukraine in HUF terms were affected by the HUF/UAH exchange rate moves: the annual average rate weakened by 6% y-o-y. As a result, there are some differences in local currency P&L and balance sheets dynamics versus those in HUF terms.

OTP Bank Ukraine posted HUF 14.1 billion adjusted after tax profit in 2017 marking a 38% increase (+49% in UAH terms) against the base period. With an annual ROE of 47.1%, the Ukrainian operation excelled itself among subsidiary banks across the Group.

The operating result dropped by 15% y-o-y (-9% in UAH terms), the key reason was the y-o-y 13% decline in net interest income.

Net fees and commissions surged by 11% (+19% in UAH terms), induced by increasing income generated on corporate and credit card transactions.

Operating expenses grew by 4% y-o-y (+12% in UAH terms) amid 14.5% average inflation, fuelled mainly by higher personnel expenses and marketing costs.

Total risk costs dropped by 83% y-o-y. The credit quality showed favourable trends: in 2017 the DPD90+ volumes (FX-adjusted and excluding the impact of loan sales and write-offs) declined by HUF 1.3 billion versus an increase of HUF 11 billion in the base period.

The DPD90+ ratio shrank to 26.4% (-15.5 pps y-o-y). Such a meaningful drop was induced mainly by non-performing loans sales/write offs. In 2017 such volumes comprised HUF 64.2 billion problem loans were sold or written off.

The FX-adjusted total performing loan book grew by 11% y-o-y and by 1% q-o-q. Corporate volumes demonstrated strong y-o-y dynamics (+10%). The retail portfolio grew by 3% y-o-y. Performing consumer loans showed strong dynamics (+43% y-o-y) due to higher credit card and POS loan volumes. Card loan disbursements kept increasing, whereas in the POS segment new volumes surged by 44% y-o-y (in UAH terms). Mortgage lending remained suspended, as a result the performing mortgage book eroded by 20% y-o-y. At the end of December 2017 the volume of net performing USD denominated mortgage loans comprised HUF 3.5 billion, whereas the UAH denominated ones represented HUF 10 billion. From 1Q 2017 car loan sales were resumed, performing volumes increased by 43% y-o-y albeit from a low base (FX-adjusted).

Deposits (adjusted for the FX-effect) increased by 18% y-o-y amid further declining offered deposit rates.

The standalone capital adequacy ratio of the Ukrainian bank according to local standards stood at 15.5% at the end of December 2017 (+3.1 pps y-o-y).

The shareholders' equity of the Ukrainian operation under IFRS was HUF 34.1 billion at the end of December 2017. The Ukrainian shareholders' equity includes that of three entities: the Bank, the Leasing and Factoring companies' equity. Accordingly, the standalone equity of the Bank under IFRS reached HUF 31.7 billion at the end of 2017, whereas the equity of the Leasing Company comprised HUF 1.6 billion. As for the Factoring company, its equity was HUF 0.7 billion.

At the end of 4Q 2017 the total gross amount of intragroup funding exposure toward the Ukrainian group members decreased to HUF 29 billion equivalent (-HUF 17 billion y-o-y) with the following break down: there was an outstanding exposure of USD 98 million equivalent toward the Leasing Company and the remaining USD 15 million toward the Factoring unit.

OTP BANK ROMANIA

Performance of OTP Bank Romania:

Main components of P&L account	2016 HUF million	2017 HUF million	Change %
After tax profit without the effect of adjustments	1,655	3,036	83
Income tax	(483)	(916)	90
Profit before income tax	2,138	3,952	85
Operating profit	8,545	9,346	9
Total income	26,644	27,138	2
Net interest income	20,315	19,779	(3)
Net fees and commissions	3,230	3,064	(5)
Other net non-interest income	3,098	4,295	39
Operating expenses	(18,100)	(17,792)	(2)
Total provisions	(6,407)	(5,394)	(16)
Provision for possible loan losses	(5,541)	(5,062)	(9)
Other provision	(866)	(332)	(62)
Main components of balance sheet closing balances	2016	2017	%
Total assets	588,188	624,060	6
Gross customer loans	524,576	535,140	2
Gross customer loans (FX-adjusted)	508,640	535,140	5
Retail loans	369,275	377,841	2
Corporate loans	139,365	157,298	13
Allowances for possible loan losses	(74,645)	(56,909)	(24)
Allowances for possible loan losses (FX-adjusted)	(70,655)	(56,909)	(19)
Deposits from customers	336,991	337,691	0
Deposits from customer (FX-adjusted)	328,790	337,691	3
Retail deposits	249,773	253,347	1
Corporate deposits	79,017	84,344	7
Liabilities to credit institutions	167,372	196,377	17
Total shareholders' equity	42,510	53,481	26
Loan Quality	2016	2017	%/pps
90+ days past due loan volume (in HUF million)	91,328	72,133	(21)
90+ days past due loans/gross customer loans	17.4%	13.5%	(3.9)
Cost of risk/average gross loans	1.05%	0.95%	(0.11)
Cost of risk/average (FX-adjusted) gross loans	1.06%	0.96%	(0.10)
Total provisions/90+ days past due loans	81.7%	78.9%	(2.8)
Performance Indicators	2016	2017	pps
ROA	0.3%	0.5%	0.2
ROE	3.8%	6.8%	3.0
Total income margin	4.46%	4.49%	0.03
Net interest margin	3.40%	3.27%	(0.12)
Cost/income ratio	67.9%	65.6%	(2.4)
Net loans to deposits (FX-adjusted)	133%	142%	8
FX rates	2016 HUF	2017 HUF	%
HUF/RON (closing)	68.5	66.6	(3)
HUF/RON (average)	69.4	67.7	(2)

- ***The bank posted HUF 3.0 billion net profit in 2017 (+83% y-o-y)***
- ***The operating profit advanced by 9% y-o-y as a result of 2% higher total income and 2% lower operating expenses***
- ***Total risk costs moderated by 16% y-o-y***
- ***The performing FX-adjusted loan portfolio grew by 10% y-o-y supported by strong lending activity in the consumer and corporate segments***

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.

The Summary of the full-year 2017 results does not incorporate the effect of the transaction.

OTP Bank Romania posted HUF 3.0 billion net profit in 2017 exceeding the base period by 83% y-o-y.

The operating profit grew by 9% y-o-y as a result of a 2% increase in total income and a 2% moderation in operating expenses. Within total income the net interest income eroded by 3% y-o-y. Net interest margin narrowed slightly (3.27%, -12 bps y-o-y).

Net fees and commissions moderated by 5% y-o-y, partly due to a regulatory change: effective from 4Q 2016 banks cannot charge fees on cash withdrawals if it is related to new loan disbursement.

Other non-interest income grew by 39% y-o-y (+HUF 1.2 billion). The increase is partially explained by one-off gain on property sale (HUF 0.3 billion) as well as improving FX result.

Operating expenses declined by 2% y-o-y. Apart from lower amortization costs other administrative expenses came down, too mainly due to savings in expenses related to real estates and lower deductible taxes. On the other hand, personnel expenses grew by 6% y-o-y.

DPD90+ volumes (FX-adjusted, without sales and write-offs) grew by HUF 1.9 billion in 2017. During 2017 HUF 16.1 billion problem loans were sold/written off. The DPD90+ ratio declined to 13.5% at the end of 2017 (-3.9 pps y-o-y).

Risk costs declined by 16% y-o-y supported by both lower provision for possible loan losses (-9%) and other risk costs (-62% y-o-y).

The FX-adjusted performing loan volumes increased by 10% y-o-y . Both the retail and corporate segment supported the expansion in 2017 (+7% and +15% y-o-y, respectively). Within retail the consumer and SME segments were the key drivers of growth (+22% and 18% y-o-y, respectively); mortgage volumes grew by 2%. As for new loan disbursements, the cash loan sales improved by 47% y-o-y, while mortgages by 69% y-o-y.

FX-adjusted deposit volumes increased by 3% y-o-y. The growth was supported by retail and corporate inflows, too (+1% and 7% y-o-y, respectively).

The y-o-y increase in shareholders' equity was partly reasoned by a capital injection of EUR 27 million executed by the mother bank. According to local regulation the Bank's standalone capital adequacy ratio stood at 14.5% at the end of 2017.

OTP BANKA HRVATSKA (CROATIA)

Performance of OTP banka Hrvatska (including Splitska banka):

Main components of P&L account	2016 HUF million	2017 HUF million	Change %
After tax profit without the effect of adjustments	3,783	17,105	352
Income tax	(865)	(3,742)	333
Profit before income tax	4,648	20,848	349
Operating profit	13,538	28,779	113
Total income	31,442	63,643	102
Net interest income	22,800	44,313	94
Net fees and commissions	5,330	12,603	136
Other net non-interest income	3,312	6,728	103
Operating expenses	(17,904)	(34,864)	95
Total provisions	(8,890)	(7,931)	(11)
Provision for possible loan losses	(5,331)	(7,498)	41
Other provision	(3,560)	(434)	(88)
Main components of balance sheet closing balances	2016	2017	%
Total assets	649,063	1,821,613	181
Gross customer loans	471,346	1,121,938	138
Gross customer loans (FX-adjusted)	472,217	1,121,938	138
Retail loans	308,539	623,627	102
Corporate loans	163,546	479,610	193
Car financing loans	132	18,700	
Allowances for possible loan losses	(50,051)	(63,752)	27
Allowances for possible loan losses (FX-adjusted)	(50,497)	(63,752)	26
Deposits from customers	515,450	1,395,087	171
Deposits from customer (FX-adjusted)	509,107	1,395,087	174
Retail deposits	443,696	991,776	124
Corporate deposits	65,412	403,312	517
Liabilities to credit institutions	44,141	132,765	201
Total shareholders' equity	74,026	238,935	223
Loan Quality	2016	2017	%/pps
90+ days past due loan volume (in HUF million)	57,127	74,325	30
90+ days past due loans/gross customer loans	12.1%	6.6%	(5.5)
Cost of risk/average gross loans	1.15%	0.85%	(0.29)
Cost of risk/average (FX-adjusted) gross loans	1.15%	0.85%	(0.30)
Total provisions/90+ days past due loans	87.6%	85.8%	(1.8)
Performance Indicators	2016	2017	pps
ROA	0.6%	1.3%	0.7
ROE	5.2%	9.3%	4.1
Total income margin	4.89%	4.70%	(0.19)
Net interest margin	3.54%	3.27%	(0.27)
Cost/income ratio	56.9%	54.8%	(2.2)
Net loans to deposits (FX-adjusted)	83%	76%	(7)
FX rates	2016 HUF	2017 HUF	%
HUF/HRK (closing)	41.1	41.6	1
HUF/HRK (average)	41.3	41.4	0

- ***On 2 May the financial closure of Splitska banka acquisition was completed, thus performance of Splitska banka has already been included into the financial statements of the Croatian operation since May***
- ***In 2017 the Croatian banking group posted HUF 17.1 billion adjusted net profit (ROE: 9.3%), of which Splitska banka's 8 months contribution represented HUF 10.9 billion***
- ***The FX-adjusted gross loan portfolio surged by 138% and deposits by 174% y-o-y, both driven primarily by the Splitska acquisition***

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.

The Croatian P&L account was adjusted for the one-off items directly related to the acquisition; these corrections are shown on consolidated level among the adjustment items. The balance sheet items were not adjusted for the acquisition effect.

In 2017 the **Croatian operation** (including Splitska banka) posted HUF 17.1 billion adjusted after tax profit, exceeding the base period by HUF 13.3 billion. The profit increase was mostly shaped by the consolidation of Splitska banka: it added HUF 10.9 billion to the combined profit through the consolidation of its results reached between the first time consolidation (occurring in May) and December. As for other key P&L lines, in 2017 Splitska banka contributed HUF 20.7 billion to the net interest income, HUF 7.2 billion to the net fees and commissions, HUF 3.3 billion to the other net non-interest income, -HUF 16.6 billion to the operating expenses and -HUF 1.2 billion to the total risk costs line, respectively.

The 2017 ROE indicator of the Croatian operation (including Splitska banka) reached 9.3%.

The net interest margin of the Croatian operation declined by 27 bps, predominantly reasoned by the dilution effect of the lower margin at Splitska banka (3.04%), but a technical effect related to the consolidation played a role, too[14].

In 2017 the cost to income ratio improved by 2.2 pps to 54.8%.

In 2017 altogether HUF 7.9 billion total risk cost was booked, 11% lower than in the previous year. The change was to a certain extent shaped by the fact that HUF 1.7 billion other provisions were written back at Splitska banka in 2Q 2017, mostly induced by the expiry of a bank guarantee: as a consequence, the related provisions were released. During 2017 loan-related risk costs emerged primarily in the corporate segment.

In 2017 the FX-adjusted increase in DPD90+ loans (adjusted for loan sales and write-offs) amounted to HUF 23 billion. The consolidation of Splitska banka's DPD90+ loan volumes was one reason behind. Apart from this, mostly corporate loans slipped into more than 90 days of delay. During the last 12 months HUF 9.4 billion non-performing loans were sold/written off. The DPD90+ ratio changed to 6.6% (-5.5 pps y-o-y).

Based on total assets the market share of the Croatian operation jumped from 4.0% at end-December 2016 to 11.2% at end-November 2017, thanks to the consolidation of Splitska banka. The branch number increased by 93 units y-o-y, the number of ATMs by 255, whereas the number of employees (on an FTE basis) by 1,333 people, respectively.

The y-o-y developments in loan volumes were mainly shaped by the consolidation of Splitska banka's portfolio. The performing (DPD0-90) loan portfolio was consolidated on a gross base, whereas the DPD90+ volumes on a net base (netted off with created provisions at the time of the consolidation). In total, the gross loan portfolio increased by HUF 650 billion, while the performing book by HUF 633 billion (+153% y-o-y), respectively.

At the end of 2017 the gross loan volumes of Splitska banka amounted to HUF 627 billion, whereas performing loans to HUF 606 billion. Excluding Splitska-effect the performing loans expanded by 6% y-o-y (FX-adjusted).

The FX-adjusted deposit base expanded by HUF 886 billion during 2017 (+174%), whereas the end-2017 deposit book at Splitska comprised HUF 849 billion. The net loan to deposit ratio sank by 7 pps to 76% (FX-adjusted).

The y-o-y increase in shareholders' equity to a great extent was related to the capital increase by OTP Bank in order to complete the Splitska acquisition. The capital adequacy ratio of the Croatian subsidiary (holding the shares of Splitska banka) calculated in accordance with local regulation stood at 16.5% at the end of 2017.

[14] The Croatian margin was upwardly biased by the fact that practically the full May net interest income was consolidated, but according to the performance indicator calculation methodology, the total assets of Splitska banka (which influences the denominator of net interest margin) was counted in only from the end of May.

OTP BANKA SLOVENSKO (SLOVAKIA)

Performance of OTP Banka Slovensko:

Main components of P&L account	2016 HUF million	2017 HUF million	Change %
After tax profit without the effect of adjustments	(2,223)	(2,051)	(8)
Income tax	256	(231)	(190)
Profit before income tax	(2,479)	(1,820)	(27)
Operating profit	6,781	6,616	(2)
Total income	17,893	17,452	(2)
Net interest income	14,257	13,358	(6)
Net fees and commissions	3,272	3,627	11
Other net non-interest income	363	467	29
Operating expenses	(11,112)	(10,836)	(2)
Total provisions	(9,260)	(8,436)	(9)
Provision for possible loan losses	(8,987)	(8,358)	(7)
Other provision	(273)	(78)	(71)
Main components of balance sheet closing balances	2016	2017	%
Total assets	453,720	452,084	0
Gross customer loans	388,926	382,932	(2)
Gross customer loans (FX-adjusted)	387,825	382,932	(1)
Retail loans	326,617	330,893	1
Corporate loans	61,147	52,010	(15)
Allowances for possible loan losses	(31,462)	(28,098)	(11)
Allowances for possible loan losses (FX-adjusted)	(31,373)	(28,098)	(10)
Deposits from customers	366,976	343,924	(6)
Deposits from customer (FX-adjusted)	365,285	343,924	(6)
Retail deposits	339,899	318,989	(6)
Corporate deposits	25,387	24,935	(2)
Liabilities to credit institutions	8,104	10,020	24
Subordinated debt	6,223	6,205	0
Total shareholders' equity	27,339	32,200	18
Loan Quality	2016	2017	%/pps
90+ days past due loan volume (in HUF million)	43,451	35,968	(17)
90+ days past due loans/gross customer loans	11.2%	9.4%	(1.8)
Cost of risk/average gross loans	2.35%	2.17%	(0.18)
Cost of risk/average (FX-adjusted) gross loans	2.37%	2.18%	(0.19)
Total provisions/90+ days past due loans	72.4%	78.1%	5.7
Performance Indicators	2016	2017	pps
ROA	(0.5%)	(0.5%)	0.0
ROE	(7.4%)	(7.6%)	(0.2)
Total income margin	3.95%	3.90%	(0.05)
Net interest margin	3.15%	2.98%	(0.16)
Cost/income ratio	62.1%	62.1%	0.0
Net loans to deposits (FX-adjusted)	98%	103%	6
FX rates	2016 HUF	2017 HUF	%
HUF/EUR (closing)	311.0	310.1	0
HUF/EUR (average)	311.5	308.4	(1)

- ***HUF 2.1 billion adjusted after tax loss (-8% y-o-y); risk costs decreased by 9% y-o-y, operating income slightly deteriorated***
- ***Further improving DPD90+ ratio (9.4%, -1.8 pps y-o-y)***
- ***Net interest margin eroded by 16 bps (2.98%), 1% y-o-y increase of the FX-adjusted performing loan book***

OTP Banka Slovensko posted HUF 2.1 billion adjusted after tax loss in 2017, which is lower by 8% compared to 2016. The negative result on the profit before income tax line is by 27% lower than in 2016 explained by the decreasing risk costs (-9% y-o-y); operating income diminished by 2%.

Net interest income declined by 6% y-o-y due to decreasing net interest margin. The net interest margin decreased by 16 bps y-o-y, since the lower interest income on loans couldn’t be counterbalanced by lower funding cost as a result of deposit interest rate cuts. Furthermore, the Bank offered retail loans with interest discounts during the spring and autumn sales campaign.

The net fee and commission income increased by 11% y-o-y, mainly as a result of higher commission income on deposits and transactions. The other net non-interest income grew by HUF 0.2 billion y-o-y.

In 2017 operating expenses decreased by 2% y-o-y, within that personnel and other expenses remained flat, therefore the decline is explained by lower software amortization.

Total risk cost declined by 9% y-o-y. In 2017 the FX-adjusted DPD90+ loan growth (without the effect of sales and write-offs) was HUF 5 billion (2016: HUF 6 billion). The DPD90+ ratio decreased by 1.8 ppt q-o-q to 9.4%. In 2017 around HUF 7.6 billion equivalent non-performing loans were sold or written off.

The FX-adjusted gross loan book shrank by 1%, while the performing loan book expanded by 1% y-o-y. The latter can be explained by 7% higher mortgage volumes; FX-adjusted corporate loan volumes declined by 13% y-o-y. In 2017 the newly disbursed cash loans decreased by 9% y-o-y (in local currency), thus the performing cash loan book declined by 2%. Newly disbursed mortgage volumes dropped by 24% y-o-y.

The FX-adjusted deposit volumes eroded by 6% y-o-y, driven mainly by the 6% drop in the volume of retail deposits; the volume of corporate deposits comprising 7% of the total deposit book decreased by 2% y-o-y.

The y-o-y increase of the bank's shareholders' equity was reasoned by a capital injection of EUR 23 million made by the mother bank. The standalone IFRS capital adequacy ratio stood at 15.0% at the end of December 2017.

OTP BANKA SRBIJA (SERBIA)

Performance of OTP banka Srbija (including Vojvodjanska banka):

Main components of P&L account	2016 HUF million	2017 HUF million	Change %
After tax profit without the effect of adjustments	39	(2,904)	
Income tax	34	109	222
Profit before income tax	5	(3,013)	
Operating profit	697	1,360	95
Total income	7,720	10,071	30
Net interest income	5,769	7,235	25
Net fees and commissions	1,653	2,275	38
Other net non-interest income	298	561	88
Operating expenses	(7,023)	(8,711)	24
Total provisions	(692)	(4,373)	532
Provision for possible loan losses	(890)	(3,133)	252
Other provision	198	(1,241)	
Main components of balance sheet closing balances	**2016**	**2017**	**%**
Total assets	123,279	482,887	292
Gross customer loans	108,704	306,874	182
Gross customer loans (FX-adjusted)	109,565	306,874	180
Retail loans	49,017	155,878	218
Corporate loans	60,548	150,997	149
Allowances for possible loan losses	(26,349)	(19,759)	(25)
Allowances for possible loan losses (FX-adjusted)	(27,107)	(19,759)	(27)
Deposits from customers	78,583	349,553	345
Deposits from customer (FX-adjusted)	79,505	349,553	340
Retail deposits	48,455	238,733	393
Corporate deposits	31,050	110,820	257
Liabilities to credit institutions	8,572	38,397	348
Subordinated debt	2,511	2,505	0
Total shareholders' equity	28,805	80,070	178
Loan Quality	**2016**	**2017**	**%/pps**
90+ days past due loan volume (in HUF million)	35,504	28,372	(20)
90+ days past due loans/gross customer loans	32.7%	9.2%	(23.4)
Cost of risk/average gross loans	0.83%	2.64%	1.81
Cost of risk/average (FX-adjusted) gross loans	0.85%	2.64%	1.79
Total provisions/90+ days past due loans	74.2%	69.6%	(4.6)
Performance Indicators	**2016**	**2017**	**pps**
ROA	0.0%	(2.0)%	(2.0)
ROE	0.1%	(9.5)%	(9.6)
Total income margin	6.16%	6.84%	0.68
Net interest margin	4.60%	4.92%	0.31
Cost/income ratio	91.0%	86.5%	(4.5)
Net loans to deposits (FX-adjusted)	104%	82%	(22)
FX rates	**2016 HUF**	**2017 HUF**	**%**
HUF/RSD (closing)	2.5	2.6	4
HUF/RSD (average)	2.5	2.5	1

- ***The financial closure of the acquisition of Vojvodjanska banka was completed on 1 December 2017, thus 2017 Serbian figures already incorporated the balance sheet, as well as one month earnings contribution of the acquired bank***
- ***In 2017 the Serbian operation posted HUF 2.9 billion loss***
- ***The operating profit almost doubled y-o-y; half of the increase was related to Vojvodjanska banka***
- ***As a result of the consolidation, FX-adjusted performing loan volumes grew almost four-fold***
- ***The DPD90+ ratio declined below 10%***

Based on the acquisition agreement signed on 4 August 2017 by OTP banka Srbija a.d. Novi Sad, the Serbian subsidiary of OTP Bank and the Group of National Bank of Greece ("NBG") 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 financial closure of the transaction has been completed on 1 December 2017 and Vojvodjanska banka was consolidated.

The Serbian P&L account was adjusted for the one-off items directly related to the acquisition; these corrections are shown on consolidated level among the adjustment items. The balance sheet items were not adjusted for the acquisition effect.

The Serbian operation (including Vojvodjanska banka) posted HUF 2.9 billion loss in 2017 versus a profit of HUF 39 million achieved in 2016.

The dynamism of P&L lines was predominantly shaped by the consolidation of Vojvodjanska banka. As for the operating profit the contribution of Vojvodjanska banka comprised HUF 0.3 billion, withint that it brought in HUF 1.1 billion in net interest income, HUF 0.4 billion in net fees and commissions and HUF 0.3 billion other income, respectively. The operating costs reached HUF 1.5 billion, while the total risk cost amounted to HUF 0.4 billion.

The operating profit of the Serbian operation almost doubled y-o-y, within that total income advanced by 30%, while operating expenses went up by 24%. Without the effect of Vojvodjanska acquisition, the operating profit grew by 48%, total income by 7% and operating expense by 3% y-o-y, respectively.

Total risk costs comprised HUF 4.4 billion underpinning a y-o-y HUF 3.7 billion increase. Part of the growth was related to the revaluation of collaterals behind DPD90+ volumes which induced a risk cost increase in 4Q; on the other hand, other risk cost also increased. Furthermore, the consolidation of Vojvodjanska banka added HUF 0.4 billion to annual risk costs.

Within the total income of the Serbian operation, both the net interest income and net fees and commission income grew substantially (+25% and +38% y-o-y). Even without the consolidation the dynamism was material (+7% and 13%, respectively).

The net interest margin (4.92%) improved by 31 bps y-o-y and it was entirely the result of the consolidation of Vojvodjanska banka[15]; without it the Serbian NIM remained stable y-o-y.

The DPD90+ loan portfolio decreased by HUF 7.1 billion y-o-y. The DPD90+ portfolio of Vojvodjanska banka was consolidated net of provisions, i.e. adjusted for provisions already set aside at the time of consolidation. The DPD90+ portfolio at Vojvodjanska banka stood at HUF 4.1 billion in December 2017. In 2017 HUF 11 billion non-performing portfolio was sold or written-off. The DPD90+ ratio shrank to 9.2% by the end of 2017.

Loan volume trends were mainly shaped by the consolidation of Vojvodjanska banka. The performing (DPD0-90) loan portfolio was consolidated on a gross base, whereas the DPD90+ volumes on a net base (as explained earlier).The FX-adjusted performing volumes increased almost four-fold y-o-y as a result of the consolidation. But even without the merger effect performing volumes expanded by 17% y-o-y.

The y-o-y increase of shareholders' equity was reasoned by the capital injection made by the mother bank in relation to the acquisition of Vojvodjanska banka. According to local regulation the capital adequacy ratio of the Serbian subsidiary holding the shares of Vojvodjanska banka stood at 28.4% at the end of 2017.

[15] The 4Q 2017 Serbian margin was upwardly biased by the fact that practically the full December net interest income of Vojvodjanska banka was consolidated, but according to the performance indicator calculation methodology, the total assets of Vojvodjanska banka (which influences the denominator of net interest margin) was counted in only from the end of December.

CRNOGORSKA KOMERCIJALNA BANKA (MONTENEGRO)

Performance of CKB:

Main components of P&L account	2016 HUF million	2017 HUF million	Change %
After tax profit w/o dividends and net cash transfer	(1,849)	(155)	(92)
Income tax	2	(11)	
Profit before income tax	(1,851)	(144)	(92)
Operating profit	2,684	1,802	(33)
Total income	10,022	9,709	(3)
Net interest income	6,951	6,543	(6)
Net fees and commissions	2,622	3,319	27
Other net non-interest income	449	(153)	
Operating expenses	(7,337)	(7,907)	8
Total provisions	(4,535)	(1,947)	(57)
Provision for possible loan losses	(4,289)	(864)	(80)
Other provision	(246)	(1,083)	339
Main components of balance sheet closing balances	**2016**	**2017**	**%**
Total assets	197,562	197,590	0
Gross customer loans	143,331	138,485	(3)
Gross customer loans (FX-adjusted)	142,926	138,485	(3)
Retail loans	71,480	72,987	2
Corporate loans	71,446	65,499	(8)
Allowances for possible loan losses	(56,513)	(38,899)	(31)
Allowances for possible loan losses (FX-adjusted)	(56,353)	(38,899)	(31)
Deposits from customers	149,119	152,316	2
Deposits from customer (FX-adjusted)	147,783	152,316	3
Retail deposits	112,614	116,502	3
Corporate deposits	35,169	35,814	2
Liabilities to credit institutions	20,765	17,962	(13)
Subordinated debt	0	0	
Total shareholders' equity	21,188	21,127	0
Loan Quality	**2016**	**2017**	**%/pps**
90+ days past due loan volume (in HUF million)	60,801	43,395	(29)
90+ days past due loans/gross customer loans	42.4%	31.3%	(11.1)
Cost of risk/average gross loans	2.90%	0.63%	(2.27)
Cost of risk/average (FX-adjusted) gross loans	2.93%	0.62%	(2.31)
Total provisions/90+ days past due loans	92.9%	89.6%	(3.3)
Performance Indicators (%)	**2016**	**2017**	**pps**
ROA	-1.0%	-0.1%	0.9
ROE	-7.9%	-0.7%	7.1
Total income margin	5.16%	5.02%	(0.14)
Net interest margin	3.58%	3.38%	(0.19)
Cost/income ratio	73.2%	81.4%	8.2
Net loans to deposits (FX-adjusted)	59%	65%	7
FX rates	**2016 HUF**	**2017 HUF**	**%**
HUF/EUR (closing)	311.0	310.1	0
HUF/EUR (average)	311.5	309.2	(1)

- ***In 2017 the bank posted HUF 0.2 billion loss***
- ***The operating profit dropped by 33% y-o-y as a result of 3% lower total income and 8% increase in operating expenses; however total risk costs more than halved y-o-y***
- ***The DPD90+ ratio (31.3%) improved in 2017, supported also by sale/write offs***
- ***FX-adjusted performing loan volume increase was mainly due to the expansion of the corporate segment***

The Montenegrin **CKB Bank** posted HUF 0.2 billion loss in 2017 against HUF 1.8 billion loss in 2016.

The operating profit declined by 33% y-o-y due to lower total income (-3% y-o-y) and increasing operating expenses (+8% y-o-y). The weaker income was shaped by the erosion of net interest income (-6% y-o-y) and lower other net non-interest income. The net interest margin eroded by 19 bps y-o-y, because lower interest income on newly disbursed exposures couldn't be off-set by moderating cost of funding. The decline in other net non-interest income was related to losses realized on property sales.

Effective from 4Q 2017 the contribution paid into the deposit insurance scheme and booked earlier within net fees and commissions was shifted into the operating cost line in a lump sum for the whole year

(HUF 0.7 billion). The y-o-y 27% surge in net fees and commissions was reasoned by that reclassification, without that the annual net fee and commission would have eroded by 1% y-o-y. Simultaneously, the 8% y-o-y increase of operating expenses was mainly induced by this shift; the adjusted cost dynamism would have shown a y-o-y 2% moderation.The total risk cost dropped by 57% y-o-y.

The DPD90+ ratio (31.3%) improved further by 11.1 pps y-o-y. The DPD90+ loan volume (FX-adjusted, without sales and write offs) decreased by HUF 0.9 billion y-o-y. During 2017 HUF 17 billion non-performing loans were sold/written off.

The FX-adjusted performing loan portfolio increased by 16% y-o-y mainly due to the remarkable growth of corporate exposures (+35% y-o-y). The retail portfolio also increased (+6% y-o-y): the mortgage loans advanced by 8% y-o-y and the consumer portfolio by 5%, respectively.

The FX-adjusted deposit portfolio grew by 3% y-o-y.

The capital adequacy ratio calculated according to local requirements stood at 22.6% at the end of 2017.

STAFF LEVEL AND OTHER INFORMATION

The closing staff number of OTP Group (including the number of employed selling agents) was 35,633 as of 31 December 2017. The Serbian increase mainly reflects to the Vojvodjanska banka acquisition (1,473 employees).

OTP Group provides services through 1,488 branches and 4,340 ATMs in 9 countries of the CEE-region. In Hungary, OTP Bank has an extensive distribution network which includes 362 branches and 1,945 ATM terminals. OTP Bank (Hungary) has 70 thousands POS terminals.

	31/12/2016				31/12/2017			
	Branches	ATM	POS	Headcount (closing)	Branches	ATM	POS	Headcount (closing)
OTP Core	367	1,883	59,988	8,293	362	1,945	70,002	9,049
o/w: new OTP Core members from 1Q 2017								581
DSK Group	372	892	5,723	4,679	367	890	7,005	4,872
OTP Bank Russia (w/o employed agents)	134	267	1,446	4,744	134	230	1,079	4,956
Touch Bank (Russia)	0	0	0	268	0	0	0	356
OTP Bank Ukraine (w/o employed agents)	84	118	246	2,151	85	115	382	2,224
OTP Bank Romania	100	147	3,374	1,119	96	139	4,351	1,163
OTP banka Hrvatska (including Splitska banka)	103	273	2,269	1,097	196	528	10,765	2,430
OTP Banka Slovenko	61	142	223	667	62	148	276	674
OTP banka Srbija (including Vojvodjanska banka)	52	118	2,303	611	157	254	5,098	2,103
CKB	29	87	4,991	424	29	91	4,070	429
Foreign subsidiaries, total	**935**	**2,044**	**20,575**	**15,758**	**1,126**	**2,395**	**33,026**	**19,206**
Other Hungarian and foreign subsidiaries[1]				1,327				860
OTP Group (w/o employed agents)				**25,378**				**29,115**
OTP Bank Russia - employed agents				*6,324*				*5,771*
OTP Bank Ukraine - employed agents				*633*				*747*
OTP Group (aggregated)	**1,302**	**3,927**	**80,563**	**32,335**	**1,488**	**4,340**	**103,028**	**35,633**

[1] Due to the changes of the data provider group members, and companies (previously presented among other Hungarian Group members) becoming member of OTP Core from 1Q 2017, the historical employee numbers of Other Hungarian and foreign subsidiaries are not comparable.

STATEMENT ON CORPORATE GOVERNANCE PRACTICE

Corporate governance practice

OTP Bank Plc., being registered in Hungary, has a corporate governance policy that complies with the provisions on companies of the act applicable (Civil Code). As the company conducts banking operations, it also adheres to the statutory regulations pertaining to credit institutions.

In accordance with the statutory requirements and the recommendation concerned, as a listed company on the Budapest Stock Exchange (BSE), the company also makes an annual declaration on its compliance with the BSE's Corporate Governance Recommendations. After being approved by the General Meeting, this declaration is published on the website of the BSE (www.bet.hu), the information storage system operated by National Bank of Hungary (www.kozzetetelek.hu), and the website of the Bank (www.otpbank.hu).

The purposes of applying the Corporate Governance Recommendations of the BSE is to facilitate the transparent and efficient market operation, support the enforcement of the laws as well as harmonise the interests of the organisation, the investors and the organisation's environment.
On the basis of the Corporate Governance Recommendations of the BSE – in line with the "comply or explain" principle – organisations need to report on their compliance with the provisions of certain specific points of the recommendation as well as whether they apply certain suggestions as provided for in the recommendation. Conforming to and observing the provisions of the Corporate Governance Recommendations of the BSE is recommended, although not compulsory for companies listed on the stock exchange and a negative answer in itself does not indicate a deficiency. With regard to the suggestions, companies only need to indicate whether they apply the given guideline or not, they are not required to provide additional explanation.

OTP Bank Plc. provided a negative answer to the following recommendations and suggestions:

R 1.1.2 The Company follows the "one share – one vote" principle
Each of the Company's ordinary shares ensures one voting right. In keeping with the stipulations of the Company's Articles of Association, voting rights depend specifically on the size of the shareholding.
Transactions, specified in 2.6.2, which depart from regular business practices and the conditions thereof were accepted by the Supervisory Board (Audit Committee).
The Company prepared procedural rules for approving transactions that depart from usual business practices, and this ensures adequate control.
R 2.7.2 The Board of Directors evaluated its own performance in a given business year.
The Company has a Nomination Committee, which has assessed the board's work.
R 2.7.2.1 The Supervisory Board evaluated its own performance in a given business year.
The Company has a Nomination Committee, which has assessed the board's work.
R 2.7.7 The Company has prepared a Declaration on Remuneration and presented it to the General Meeting.
The Declaration on Remuneration contains the remuneration of certain members of the Board of Directors, the Supervisory Board, and the management.
R 4.1.11 The Company has published in its annual report and on its website a Declaration on Remuneration, which describes the remuneration guidelines used and, specifically, the guidelines pertaining to the remuneration of members of the Board of Directors, the Supervisory Board and the management.
G 3.4.5 The Remuneration Committee ensures that a declaration on remuneration is prepared.
In compliance with the applicable European Union directive (CRD IV) and the provisions of the Act on Credit Institutions and Financial Enterprises, the Bank's General Meeting concluding the year 2016, its Board of Directors and Supervisory Board have provided for the review of the Remuneration Policy of the Bank and the Bank Group. In line with the national and EU legislative environment, the process of implementing the Bank Group's Remuneration Policy includes the methodological framework relating to the identification of activities and employees with a material impact on risk, which constitutes the basis for determining the group of persons subject to the Bank Group's Remuneration Policy, and the rules of procedure relating to the annual evaluation process.
The purpose of the Bank Group's Remuneration Policy is, remaining within the limits of the Bank Group's risk-bearing capacity, to recognise and provide motivational support for the achievement of Bank and Group-level results by the management and holders of key positions at the Bank, and the managers of subsidiaries in the Bank Group.

The Bank Group's Remuneration Policy applies to the members of the Bank's and the Bank Group's (credit institutions and investment firms) Board of Directors and Supervisory Board, and – among the staff in an employment relationship with the Bank and other institutions operating in the Bank Group – the members of the management (Chairman & CEO and the deputies thereof), and managers who materially influence the risk profile and its profit, managers performing special executive functions, managers with control functions, all managers whose salaries are in the same pay scale as that of the management of the given institution. The Remuneration Policy also applies to the chief executive officers and their deputies of those Bank Group subsidiaries that are subject to consolidated supervision and considered as major business units for the Bank or its given subsidiary, and to those employed by the Bank Group subsidiary subject to consolidated supervision having a salary in the best-earning 0.3% segment at the level of the Bank Group or the sub-consolidated group led by the institution or the institution. Managers whose impact on the risk profile is significant at the Bank Group level are subject to the consolidated level personal scope, while managers whose impact on the risk profile is significant only to the sub-consolidated group led by the institution or institution level are subject to the sub-consolidated or the local level personal scope. The resolution on the persons to whom the Bank Group's Remuneration Policy applies is made by the Bank's Supervisory Board.

The members of the Board of Directors and the Supervisory Board receive an honorarium of a fixed amount for their work in this capacity, and do not receive performance-based remuneration.

For the other personnel included in the scope of the Remuneration Policy, the remuneration is composed of fixed and performance-based components. The proportions of fixed and performance-based components of remuneration are determined by the Bank's Supervisory Board based on the function, size and complexity of the unit being managed. The proportion of performance-based remuneration may not exceed 100% of fixed remuneration for any person concerned.

The most important basic principle of the Bank Group's Remuneration Policy is that the extent of performance-based remuneration – subject to a preliminary and retrospective assessment of the risks – depends on the extent to which Bank Group/Bank/Subsidiary-level and individual targets are met.

In the case of managers in an employment relationship with the Bank, the evaluation of performance, besides an assessment of the return on risk-weighted assets (RORAC) indicator for the given activity, takes place on the basis of the criteria used to measure strategic and individual performance (financial indicators and indicators of the quality of work performance). In the case of managers at subsidiaries in the Bank Group the evaluation of performance takes place in a differentiated manner, in keeping with the characteristics of the companies' activities. The target values of the indicators are determined by the Bank's Supervisory Board on the basis of the effective financial plan for the given year.

The performance evaluation-based, variable remuneration takes the form of a cash bonus and – where permitted by national legislation – remuneration exchanged for shares or a preferentially-priced share package, in equal proportions (50-50%). As a general rule, for the consolidated level, the share-based part of the variable remuneration is provided to the employees concerned by the Bank, while for the sub-consolidated and the local level as well as for the Bank Group subsidiaries operating outside the European Union, virtual stock transfers (payment of cash bonus corresponding to the prevailing exchange rate) is made.

Employees employed by OTP Bank Plc., OTP Mortgage Bank Ltd., OTP Building Society Ltd. and Merkantil Bank Ltd. subject to the consolidated level personal scope of the Bank Group's Remuneration Policy receiving performance-based remuneration are entitled to acquire a membership stake in OTP Bank MRP Organisation to the extent of the share-based part of their performance-based remuneration on the basis of their voluntary resolution. The membership stake in OTP Bank MRP Organisation is non-marketable, cannot be credited, cannot be offered as collateral and only enables the individual to receive the actual settlement of the share package if the conditions as stipulated in the Remuneration Policy (the result of the performance evaluation, the subsequent risk assessment) are met. Membership stakes not meeting the conditions revert to OTP Bank Plc.

In keeping with the Credit Institutions Act, at consolidated level payment of 60%, while at sub-consolidated and local level, as a general rule, 40% of the variable remuneration is staggered over a period of three years – in case of the Bank's Management a period of four years –, during which period the deferred amount is determined annually in equal proportions. Determination of eligibility to receive the deferred instalments takes place on the basis of a retrospective assessment of the risks. The assessment of the risks is based both on quantitative criteria used to measure prudent operation, and on qualitative evaluation criteria. Based on the assessment of the risks related to the activities of the employees concerned, the deferred part of the performance-based remuneration may be reduced or withheld completely. A further prerequisite for entitlement to the deferred part is a continuing employment relationship.

The remuneration of the members of the Supervisory Board and the Board of Directors, which is determined in a resolution of the General Meeting, is public, while with respect to the remuneration policy, the Bank complies with its public disclosure obligation in accordance with the prevailing statutory provisions.

R The Managing Body pre-determined in a resolution what circumstances constitute "significant bearing".

The Board of Directors did not take any decision in that respect in 2017.

R 3.1.6 The company published on its website the tasks delegated to the Audit Committee, and the committee's objectives, rules of procedure and composition (specifying the members' names, a brief CV and the date of appointment).
OTP Bank Plc. has established and operates an Audit Committee, which supports the work of the Supervisory Board, and the Bank has published the names of the members, each with a brief CV. The tasks delegated to the Audit Committee, and the objectives and procedural rules of the Committee, are not in the public domain.
R 3.1.6.1 The company published on its website the tasks delegated to the Nomination Committee, and the committee's objectives, rules of procedure and composition (specifying the members' names, a brief CV and the date of appointment).
OTP Bank Plc. has established and operates an Audit Committee, which supports the work of the Supervisory Board, and the Bank has published the names of the members, each with a brief CV. The tasks delegated to the Audit Committee, the objectives and procedural rules of the Committee are not in the public domain.
R 3.4.4.2 The Remuneration Committee reviewed the terms and conditions of contracts that were concluded with the management.
A review of the terms of contracts concluded with members of the management does not fall within the remit of the Remuneration Committee.
R 3.5.1 The Board of Directors has disclosed its reasons for merging the Remuneration and the Nomination Committee.
The Company operates both a Remuneration Committee and a Nomination Committee.
R 3.5.2 The Board of Directors performed the tasks of the Nomination Committee and issued a statement on its reasons for doing so.
The Nomination Committee performed its own tasks.
R 3.5.2.1 The Board of Directors performed the tasks of the Remuneration Committee and issued a statement on its reasons for doing so.
The Remuneration Committee performed its own tasks.
G 1.3.1 The Company's General Meeting accepted the chairman of the General Meeting prior to the actual discussion of the agenda items.
For the purpose of the Articles of Association of the Company, the Chairman of the Board or another person mandated by the Board of Directors for this purpose chairs the General Meeting.
G 1.4.2 The Company published its guidelines concerning solutions for preventing hostile takeovers directed at the Company.
The domestic legislation provide appropriate guarantee for the procedures relating to acquisitions and the enforcement of the shareholders' interests.
G 2.5.3 The Company provided information about how it ensures that the Board of Directors remains objective in its evaluation of the management activities in the event that the position of Chairman & CEO is combined.
A Nomination Committee operates at the Company which evaluates the activity.
G 2.5.5 No member of the Company's Supervisory Board held a position on the Company's Board of Directors or in the management in the three years prior to his/her nomination.
The Supervisory Board of the Company has such a member who held a position in the management of the company in the three years preceding his designation.
G 3.1.2 The chairman of the Audit Committee regularly informs the Board of Directors of the individual meetings of the committee, and the committee prepares at least one report each business year for the executive body and the Supervisory Board.
Based on the Civil Code the Audit Committee is a body assisting the Supervisory Board, its members are elected by the General Meeting from among the independent members of the Supervisory Board. Since the functions of these bodies are closely linked to each other, the chairman of one board is the vice president of the other board and vice versa, so the Supervisory Board is aware of the Audit Committee's decisions. Special reporting is not justified for the Supervisory Board. The Audit Committee does not need to report for the executive body.
G 3.3.5 The Nomination Committee's rules of procedure include the stipulations specified in point 3.3.5.
For the conditions of performing the evaluation activity, the Company has drafted rules of procedure which provide appropriate control.

System of internal controls

The main function of the internal audit system is to protect customers, the company's assets and shareholder's interests, as well as to facilitate and monitor operation in compliance with the statutory provisions.

The internal audit system extends to all of the company's organisational units, business lines and activities, including outsourced activities. To ensure effective auditing, the internal audit system consists of several modular control levels, and is also segmented in line with the departmental structure of the organisation. The elements of the internal audit system are comprised of in-process and management controls, and an independent internal audit unit and management information system.

OTP Bank Plc. has developed and applies such a uniform internal audit system consistently throughout the Bank Group that is proportionate to the size of the OTP Group and the market share of the Company, includes shareholder audits conducted at the foreign and domestic group members as well as the professional oversight of the internal audit organisations of the financial institutions that are subject to consolidated supervision as specified in the Credit Institutions Act. To this end, standardised internal audit procedures and methodologies pertaining to the operation and activities of group members' internal audit departments are developed, enhanced and applied on a continuous basis. Internal audit also liaises regularly and cooperates with external auditing bodies.

The independent internal audit unit assists in the legally compliant and effective management of assets and liabilities and the protection of property; it supports secure business operation, the effectiveness, cost-efficiency and success of internal control systems, the minimisation of risks, and moreover – alongside the compliance unit – it detects and reports departures from the provisions of the statutory regulations and internal policies, makes recommendations for the elimination of deficiencies, and monitors the implementation of the measures. It performs its activities independently, objectively and professionally. Its independence is ensured by the fact that it is professionally overseen by the Supervisory Board, within the framework set out by the Credit Institutions Act. The independent internal audit organisation was set up in a manner that the execution of ownership controls at the Organisation, in the network and at the foreign and domestic group members, as well as the professional supervision of the foreign and domestic internal audit organisation is properly ensured.

The independent internal audit organisation has an annual audit plan which is approved by the Supervisory Board. The annual plan is prepared using a risk-based methodology and, in addition to focusing on the areas that entail regulatory, business and operational risk, and the other main risk exposures, it emphasizes especially the control of reporting and data, further, it also takes into account the company's prevailing strategic priorities.

The internal audit organisation makes independent reports on its auditing activities for the management bodies at quarterly and annual intervals. In its quarterly reports it gives a group-level, summary account of the audits conducted in the given quarter, the risks identified in the course of its own audits and audits conducted by the authorities, and the success of any action taken to eliminate them. In exceptional cases that require immediate intervention, it provides the management with extraordinary briefings. The audit organisation reports annually on the performance of the tasks stipulated in the group-level annual audit schedule, the audits conducted and other activities, and on the circumstances of the organisation's operation, as well as on any changes to the internal audit system.

The organisation annually prepares, for the Supervisory Board, objective and independent reports in respect of the operation of risk management, internal control mechanisms and corporate governance functions.

The basis for effective group-level risk management is the operation of a standardised, "OTP-compatible" organisational structure as well as regulations and procedures at the subsidiaries concerned. The Company has detailed risk management rules for each of the various types of risk (liquidity, market, country, counterparty, credit, operational, compliance), and these rules are in harmony with the statutory regulations pertaining to prudential banking operations. The annual report describes the risk management practices, the limits, and compliance with these limits.

Within the Company, the Credit Approval and Risk Management Division and the Strategy and Finance Division exercise functional control over the guidelines, methodology and infrastructure of the Bank Group's risk management strategy, the purpose of which is to create a clearly defined, transparent, standardised credit, country, counterparty, market and operational risk management system at group level which complies with the expectations of the supervisory authority and local conditions. The Bank Group's Risk Strategy, as well and the rules on risk prescribed by the Credit Institutions Act, are approved by the Bank's Board of Directors.

The Risk Strategy determines, with respect to the entire Bank Group, the framework for risk management and the principles and guidelines of risk assumption.

With respect to the cornerstones of the risk management methodologies, and the main risk topics for Bank Group members, the final decision-making competence is held by the Group members' risk committees (Credit and Limit Committee, Workout Committee, Group Operational Risk Committee).

The Bank's risk management system encompasses the identification of the risks, assessment of their impact, elaboration of the necessary action plans, and the monitoring of their effectiveness and results. The management make their business decisions in a knowledge of all the key risks. All significant risks related to internal and external operations, or to compliance with financial and legal requirements, as well as numerous other risks, are evaluated and managed using a clearly-defined and transparent internal mechanism.
In adopting its accounting policy and defining its accounting order the Bank uses its own control mechanisms and processes ensuring properly to reach the following goals: to draw up reliable financial reports, to carry out various successful and effective operations for the company, to comply with the legislation in force and to fully comply with the provisions related to the supplying of data to the Regulators. All competencies of the banking units responsible for drawing up the report and the accounting control are set up in an internal regulation instrument.
The internal regulation shall define the closing competencies and data supplying necessary for drawing up the interim (monthly, quarterly and six-month) and the annual disclosure reports. It provides a complete guidance for the interim (monthly, quarterly, six-month) and the annual closing competencies, tasks and supplying of data. The internal regulation sets up deadlines and appoints responsible officers for the tasks.
The internal regulation also orders the inventory and conciliation of ledger records containing provisional registration of items which – for various reasons – could not be immediately cleared on a real account of assets/ liabilities or on the general ledger accounts serving for registration of items outside the balance sheet at the time when they emerged.
Act no. 100 of 2000 on Accounting (IFRS) provides that the report shall rest on an inventory. Internal regulation sets detailed rules of inventory tasks in order to ensure a genuine balance sheet rest on proper definition of stocks of assets and liabilities, to check the bookkeeping and the accountancies and to reinforce this way the documentary discipline, to protect belongings, to explore inventories of decreased value and the assets out of use.

Furthermore, the Bank draws up and applies a detailed accounting system and continuously adapts new accounting measurements related the actual products and activities. Internal regulations on accounting are revised annually and updated if necessary. The legal, the internal audit and the compliance area are involved in the drafting and amending of these regulations.

General meeting, Articles of Association

The General Meeting is the supreme governing body of OTP Bank Plc. The regulations pertaining to its operation are set forth in the Company's Bylaws, and comply fully with both general and special statutory requirements. Information on the General Meeting is available in the Corporate Governance Report.

Regulations and information to be presented in the Business Report concerning securities conferring voting rights issued by the Company and senior officials, according to the effective Articles of Association, and ownership structure

The Company's registered capital is HUF 28,000,001,000, that is twenty-eight thousand million one thousand Hungarian forint, divided into 280,000,010 that is Two hundred and eighty million and ten dematerialised ordinary shares with a nominal value of HUF 100 each, and a total nominal value of HUF 28,000,001,000, that is twenty eight billion one thousand Hungarian forint.

The ordinary shares of the Company specified all have the same nominal value and bestow the same rights in respect of the Company.

There are no restrictions in place concerning the transfer of issued securities constituting the registered capital of the Company.

No securities with special control rights have been issued by the Company.

The Company does not run control systems prescribed by an employee ownership program, where control rights are not exercised directly by the employees.

Rules on the restrictions of the voting rights:

The Company's ordinary shares confer one vote per share.

An individual shareholder or group of shareholders may not exercise voting rights in respect of in an extent exceeding 25%, or – if the voting rights of another shareholder or group of shareholders exceed 10% – exceeding 33% of the total voting rights represented by the shares conferring voting rights at the Company's General Meeting.

The shareholder is obliged to notify the Company's Board of Directors without delay if the shareholder directly or indirectly, or together with other shareholders in the same group of shareholders, holds more than 2% of the voting rights represented by the shares conferring voting rights at the Company's General Meeting. Concurrently with this, the shareholder is obliged to designate the shareholders through which the indirect voting right exists, or the members of the group of shareholders. In the event of a failure to provide such notification, or if there are substantive grounds for assuming that the shareholder has made a misleading declaration regarding the composition of the shareholder group, then the shareholder's voting right shall be suspended and may not be exercised until the shareholder has met the above obligations. The notification obligation stipulated in this paragraph and the related legal consequences are also incumbent upon individuals who are classified or may be classified as the Company's shareholders under Article 61 of the Capital Markets Act. The Company must also be provided with proof of the conditions for exemption from the notification obligation in accordance with Section 61 (7)-(8) and Section 61 (10)-(11)-(12), of the Capital Markets Act.

Shareholder group: the shareholder and another shareholder, in which the former has either a direct or indirect shareholding or has an influence without a shareholding (collectively: a direct and/or indirect influence); furthermore: the shareholder and another shareholder who is exercising or is willing to exercise its voting rights together with the former shareholder, regardless of what type of agreement between the participants underlies such concerted exercising of rights.

For determining the existence and extent of the indirect holding, the rules of the Credit Institutions Act relating to the calculation of indirect ownership shall be applied.

If the voting rights that may be exercised by a shareholder group exceed the threshold stipulated in the first paragraph of this section, the voting rights shall be reduced in such a way that the voting rights relating to the shares most recently acquired by the group of shareholders shall not be exercisable.

If there are substantive grounds to presume that the exercising of voting rights by any shareholder or shareholders might result in a breach of the rules of the Capital Markets Act relating to the acquisition of a controlling interest, the Board of Directors' authorised representative responsible for the registration of shareholders at the venue of the General Meeting, or the Chairman of the General Meeting, may exclude the affected shareholders from attending the General Meeting or exercising voting rights.

The General Meeting has exclusive authority with respect to the decision regarding the delisting of the shares (qualified majority).

The Company is not aware of any kind of agreements among the owners that could give rise to the restriction of the transfer of issued securities and/or the voting rights.

Rules on the appointment and removal of executive officers, and rules on amendment of the Articles of Association:

The Board of Directors has at least 5, and up to 11 members.

When making the decisions, shares embodying multiple voting rights shall represent one share.The members of the Board of Directors are elected by the General Meeting based on its decision uniformly either for an indefinite period or for five years; in the latter case the mandate ends with the General Meeting concluding the fifth financial year following the election. The mandate of a member elected during this period expires together with the mandate of the Board of Directors.

The Board of Directors elects a Chairman and, may elect one or more Deputy Chairmen, from among its own members, whose period of office shall be equal to the mandate of the Board of Directors. The Chairman of the Board of Directors is also the Chief Executive Officer (Chairman & CEO) of the Company.

The membership of the Board of Directors ceases to exist by

g. expiry of the mandate,
h. resignation,
i. recall,
j. death,
k. the occurrence of grounds for disqualification as regulated by law.
l. termination of the employment of internal (executive) Board members.

The General Meeting has exclusive authority with respect to the following matters:

- the recall of members of the Board of Directors, the Supervisory Board and Audit Committee, and of the auditor; (qualified majority)
  More than one third of the members of the Board of Directors and the non-executive members of the Supervisory Board may be recalled within a 12-month period only if any shareholder holds more than 33% of the shares issued by the Company, which have been obtained by the shareholder by way of a public purchase offer.
- except in the cases referred by these Articles of Association to the authority of the Board of Directors, the establishment and amendment of the Articles of Association; (qualified majority); the General Meeting decides on proposals concerning the amendment of the Articles of Association – based on a resolution passed by shareholders with a simple majority – either individually or en masse.

The Board of Directors is exclusively authorised to make decisions regarding any change in the Company's name, registered office, permanent establishments and branches, and in the Company's activities – with the exception of its core activity – and, in relation to this, to modify the Articles of Association should it become necessary to do so on the basis of the Civil Code or the Articles of Association.

The Board of Directors is obliged to

- prepare the Company's financial statements in accordance with the Accounting Act, and make a proposal for the use of the profit after taxation;
- prepare a report once a year for the General Meeting, and once every three months for the Supervisory Board, concerning management, the status of the Company's assets and business policy;
- provide for the proper keeping of the Company's business books;
- perform the tasks referred to its authority under the Credit Institutions Act, in particular:
  - ensuring the integrity of the accounting and financial reporting system;
  - elaborating the appropriate strategy and determining risk tolerance levels for each business unit concerned;
  - setting risk assumption limits;
  - providing the necessary resources for the management or risk, the valuation of assets, the use of external credit ratings and the application of internal models.

The following, in particular, come under the exclusive authority of the Board of Directors:

- election of the Chairman & Chief Executive Officer of the Company, and exercising employer's right in respect thereof;
- election of one or more Deputy Chairmen of the Board of Directors;
- determination of the annual plan;
- the analysis and assessment of the implementation of business-policy guidelines, on the basis of the Company's quarterly balance sheet;
- decisions on transactions referred to the authority of the Board of Directors by the Company's organisational and operational regulations;
- decision on launching, suspending, or terminating the performance of certain banking activities within the scope of the licensed activities of the Company;
- designation of the employees entitled to sign on behalf of the Company;
- decision on the increasing of registered capital at the terms set out in the relevant resolution of the General Meeting;
- decision to acquire treasury shares at the terms set out in the relevant resolution of the General Meeting;
- decision on approving internal loans in accordance with the Credit Institutions Act;
- decision on the approval of regulations that fundamentally determine banking operations, or are referred to its authority by the Credit Institutions Act. The following shall qualify as such regulations:
  - the collateral evaluation regulations,
  - the risk-assumption regulations,
  - the customer rating regulations,
  - the counterparty rating regulations,
  - the investment regulations,
  - the regulations on asset classification, impairment and provisioning,

  - the organisational and operational regulations, which contain the regulations on the procedure for assessing requests related to large loans,
  - the regulations on the transfer of signatory rights;
- the decision on approving the Rules of Procedure of the Board of Directors;
- decision on steps to hinder a public takeover procedure;
- decision on the acceptance of a public purchase offer received in respect of treasury shares;
- decision on the commencement of trading in the shares in a regulated market (flotation);
- decision on the cessation of trading in the shares in a given regulated market, provided that the shares are traded in another regulated market (hereinafter: transfer).

The Board of Directors is exclusively authorised to:

- decide, in the cases specified in the Civil Code, on acceptance of the Company's interim balance sheet, subject to the prior approval of the Supervisory Board;
- decide, instead of the General Meeting, to pay an advance on dividends, subject to the preliminary approval of the Supervisory Board;
- make decisions regarding any change in the Company's name, registered office, permanent establishments and branches, and in the Company's activities – with the exception of its core activity – and, in relation to this, to modify the Articles of Association should it become necessary to do so on the basis of the Civil Code or the Articles of Association;
- make decision on mergers (if, according to the provisions of the law on the transformation, merger and demerger of legal entities, the approval of the General Meeting is not required in order for the merger to take place).

The Board of Directors directly exercises employer's rights in respect of the Chairman & CEO. The person affected by a decision may not participate in the decision making. Employer rights in respect of the executive directors of the Company are exercised by the Board of Directors through the Chairman & CEO, with the proviso that the Board of Directors must be notified in advance of the appointment and dismissal of the Deputy CEOs. With regard to issues related to the exercising of employer's rights in respect of employees, the Company is represented by the Chief Executive Officer and by the senior company employees defined in the Organisational and Operational Regulations of the Company, in accordance with the delegation of authority approved by the Board of Directors.

The Board of Directors may delegate, to individual members of the Board of Directors, to executive directors employed by the Company, and to the heads of the individual service departments, any task that does not come under the exclusive authority of the Board of Directors in accordance with these Articles of Association or a General Meeting resolution.

The Company may acquire treasury shares in accordance with the rules of the Civil Code. The prior authorisation of the General Meeting is not required for the acquisition of treasury shares if the acquisition of the shares is necessary in order to prevent a direct threat of severe damage to the Company (this provision is not applicable in the event of a public purchase offer aimed at buying up the Company's shares), as well as if the Company acquires the treasury shares in the context of a judicial procedure aimed at the settlement of a claim to which the Company is entitled, or in the course of a transformation.

The Company has not made agreements in the meaning of points (j) and (k) in paragraph 95/A of Act No. C of 2000 on Accounting.

Ownership structure of OTP Bank Plc.

as at 31 December 2017

Description of owner	Total equity					
	At the beginning of actual year			End of actual period		
	%[1]	%[2]	Qty	%[1]	%[2]	Qty
Domestic institution/company	20.20%	20.47%	56,561,346	20.06%	20.28%	56,171,016
Foreign institution/company	64.83%	65.71%	181,528,602	63.73%	64.42%	178,445,190
Domestic individual	4.42%	4.48%	12,364,400	3.92%	3.97%	10,988,183
Foreign individual	0.16%	0.16%	447,025	0.23%	0.23%	650,713
Employees, senior officers	0.79%	0.80%	2,214,853	0.80%	0.81%	2,250,991
Treasury shares[3]	1.33%	0.00%	3,737,768	1.07%	0.00%	3,009,046
Government held owner[4]	0.08%	0.08%	225,928	0.08%	0.08%	226,012
International Development Institutions[5]	0.02%	0.02%	49,715	0.03%	0.03%	70,502
Other[6]	8.17%	8.28%	22,870,373	10.07%	10.18%	28,188,357
TOTAL	**100.00%**	**100.00%**	**280,000,010**	**100.00%**	**100.00%**	**280,000,010**

[1] Ownership share. The data of Domestic individual and Employees, senior officers were revised for the beginning of actual year.
[2] Voting rights
[3] From 2Q 2017 treasury shares do not include the OTP shares held by ESOP.
[4] E.g.: State Privatization Holding Co. Ltd., Social Security, Municipality, 100% state-owned companies, Pension Reform and Debt Reduction Fund etc.
[5] E.g.: EBRD, EIB, etc.
[6] Non-identified shareholders according to the shareholders' registry.

Number of treasury shares held in the year under review (2017)

	1 January	31 March	30 June	30 September	31 December
OTP Bank	1,281,704	1,343,799	820,776	1,021,259	935,486
ESOP	382,504	382,504			
Subsidiaries	2,073,560	2,073,560	2,073,560	2,073,560	2,073,560
TOTAL	3,737,768	3,799,863	2,894,336	3,094,819	3,009,046

Shareholders with over/around 5% stake as at 31 December 2017

Name	Number of shares	Ownership	Voting rights
MOL (Hungarian Oil and Gas Company Plc.)	24,000,000	8.57%	8.66%
Megdet, Timur and Ruszlan Rahimkulov	23,738,672	8.48%	8.57%
OPUS Securities S.A.	14,496,476	5.18%	5.23%
Groupama Group	14,369,541	5.13%	5.19%

Committees

Members of the Board of Directors
Dr. Sándor Csányi– Chairman
Mr. Antal György Kovács
Mr. László Wolf
Mr. Mihály Baumstark
Dr. Tibor Bíró
Mr. Tamás Erdei
Dr. István Gresa
Dr. Antal Pongrácz
Dr. László Utassy
Dr. József Vörös

Members of the Supervisory Board
Mr. Tibor Tolnay – Chairman
Dr. Gábor József Horváth – Deputy Chairman
Mr. Dominique Uzel
Dr. Márton Gellért Vági
Mrs. Ágnes Rudas
Mr. András Michnai

Members of the Audit Committee
Dr. Gábor József Horváth – Chairman
Mr. Tibor Tolnay
Mr. Dominique Uzel
Dr. Márton Gellért Vági

The résumés of the committee and board members are available in the Corporate Governance Report/Annual Report.

Personal and organizational changes

In consideration of retirement the employment relationship of Antal Kovács, Deputy Chief Executive Officer, head of the Retail Division and internal member of the Board of Directors, was terminated by mutual agreement on 17 March 2017. According to the Act on Credit Institutions and Financial Enterprises, the internal membership of the Board of Directors was terminated at the time his employment was terminated.

Antal Kovács and OTP Bank Plc. concluded an employment contract for an indefinite duration from 20 March 2017 and based thereon Antal Kovács as a head of division and – as of the date of delivery of the permission of National Bank of Hungary – as the Deputy Chief Executive Officer (according to the Act on Credit Institutions and Financial Enterprises as managing director) will be the head of the Retail Division.

The Annual General Meeting elects Mr. György Antal Kovács as member of the Board of Directors of the Company until the Annual General Meeting of the Company closing the 2020 business year but not later than 30 April 2021.

The Annual General Meeting elects Mr. Tibor Tolnay Dr. Gábor Horváth, Mr. András Michnai, Mrs. Ágnes Rudas, Mr. Dominique Uzel and Dr. Márton Gellért Vági as members of the Supervisory Board of the Company until the Annual General Meeting of the Company closing the 2019 business year but not later than 30 April 2020.

The Annual General Meeting elects Dr. Gábor Horváth, Mr. Tibor Tolnay Mr. Dominique Uzel and Dr. Márton Gellért Vági as members of the Audit Committee of the Company until the Annual General Meeting of the Company closing the 2019 business year but not later than 30 April 2020.

The Annual General Meeting elects concerning the audit of OTP Bank Plc.'s separate and consolidated annual financial statements in accordance with International Financial Reporting Standards for the year 2017, the Annual General Meeting is electing Deloitte Auditing and Consulting Ltd. (000083, H-1068 Budapest, Dózsa György út 84/c) as the Bank's auditor from 1 May 2017 until 30 April 2018.

Based on the decision of the Board of Directors Mr. György Kiss-Haypál, Chief of Credit Approval and Risk Management Division, was appointed as Deputy Chief Executive Officer – possessing the necessary permissions – from 3 May 2017.

Operation of the executive boards

OTP Bank Plc. has a dual governance structure, in which the Board of Directors is the Company's executive body, while the Supervisory Board performs oversight tasks. The effective operation of Supervisory Board is supported by the Audit Committee.

In order to assist the performance of the governance functions the Board of Directors founded and operates, as permanent or special committees, such as the Management Committee, the Management Coordination Committee or the Remuneration Committee, the Nomination Committee and the Risk Assumption and Risk Management Committee. To ensure effective operation OTP Bank Plc. also has a number of other permanent and special committees.

OTP Bank Plc. gives an account of the activities of the executive boards and the committees every year in its Corporate Governance Report.

The Board of Directors held 6, the Supervisory Board held 9 meetings, while the Audit Committee gathered 3 times in 2017. In addition, resolutions were passed by the Board of Directors on 98, by the Supervisory Board on 37 and by the Audit Committee on 21 occasions by written vote.

Policy of diversity

OTP Bank Plc. determines and regulates the criteria for the selection of senior executives in line with European Union as well as domestic legal requirements and directives fundamentally determining the operation of credit institutions.
When designating members of the management bodies (Board of Directors, Supervisory Board) as well as appointing members of the Board of Directors and administrative members (Management), OTP Bank Plc. considers the existence of professional preparation, the high-level human and leadership competence, the versatile educational background, the widespread business experience and business reputation of the utmost importance, at the same time, it is also highly committed to taking efficient measures in order to ensure diversity with regard to corporate operation, including the gradual improvement in women's participation rate.

With this in mind, OTP Bank Plc.'s Nomination Committee continuously keeps tracking the European Union and domestic legislation relating to women's quota on its agenda, in that when unambiguously worded expectations are announced, it promptly takes the necessary measures.
It is important to note, however, that, as a public limited company, the selection of the members of the management bodies falls within the exclusive competence of the General Meeting upon which – beyond its capacity to designate enforcing the above aspects to maximum effect – OTP Bank Plc. has no substantive influence.
For the purposes of OTP Bank Plc.'s Articles of Association, a Board of Directors comprising 5-11 members and a Supervisory Board comprising 5-9 members are set up at the Bank. The Board of Directors in its current form operates with 10 members and has no female member, while the Supervisory Board comprises 6 members and has one female member as of 15 April, 2016. The management of OTP Bank Plc. currently comprises 6 members and has no female member.

ENVIRONMENTAL POLICY, ENVIRONMENTAL PROJECTS

OTP Group reports on its social, environmental and wider economic impacts and performance primarily in its Sustainability Report. Information on these matters is also included in the Business Report in order to comply with the relevant provisions in the Accounting Act, while also adhering to the principle of keeping the duplication of information to the minimum. The Sustainability Report for 2017 will be a group-level report that meets the GRI (Global Reporting Initiative) Standard and is certified by an independent third party; it will be available on OTP Bank's website (https://www.otpfenntarthatosag.hu/hu/jelentesek).

Commitment to society

Responsible financial services

As a financial service provider OTP Bank's goal is to create added value for its customers, be it the availability, compatibility or the simple and safe usability of tools and products. We give priority to maintaining the stability of the Banking Group and to providing services that are secure for our customers in all aspects. We shape our risk management principles and practices in accordance with the criteria of responsible lending. Our loan assessment system helps avoid over-indebtedness. We invest and lend the money deposited with us in a manner that ensures its repayment and does not serve purposes that are illegal or contrary to the values of our society. This delicate balance is maintained by:

– our strict *Risk Management Policy*,

– our annually revised *Lending Policy*,

– our continuously updated *credit approval system*.

In 2017, our debtor protection programs remained available to customers facing payment difficulties. In addition to assistance programs by the state, we continue to provide the option of programs developed by the Group.

With an eye to the strategic goal of customer focus we consider it of utmost importance to provide our customers with ever more convenient and enjoyable services at a high standard of quality. OTP Group's clear objective is to serve its customers in an error-free manner. Our *Complaint Management Regulation* is available to view in our branches and on our website.

Customer complaint features, OTP Bank*	2017
Number of warranted complaints	97,780
Proportion of warranted complaints	33%
Compensation paid (HUF million)	235
Amount of compensation per warranted complaint (HUF)	2,403

* Also includes data for OTP Lakástakarék and OTP Jelzálogbank.

Accessibility

OTP Bank developed a complex accessibility strategy regarding how to treat and inform customers with special needs. We are constantly improving accessibility by relying on the expertise of our branch employees, the feedback from the customers concerned and our cooperation with independent non-governmental organizations. Physical accessibility is provided in all but one of our branches[16]. Our branch queue management system offers the option to request special services for persons with reduced mobility or persons who are deaf or hard-of-hearing, blind or partially-sighted. At the moment 133 branches (35%) have tactile indicators or doming to help the visually impaired with orientation; the roll-out of these features is continuous. Induction loop amplifier systems are available in 32% of all branches, and 35 high-traffic branches have employees who can serve customers using sign language. 72% of our ATMs are wheelchair-accessible. We are testing a text-to-speech function for our ATMs and plan to roll it out to 150 ATMs in 2018.

Community Involvement

Historically, OTP Bank has been among the largest donors in Hungary. In 2017 we donated a total of HUF 1,828 million. For several years now, we have focused our efforts on:

– developing financial literacy, attitude-shaping;

– creating equal opportunities: helping the disadvantaged and those in need;

[16]Accessibility is not feasible at one branch due to the characteristics of its building and environment.

– sponsoring culture and the arts: creating and preserving values; and
– sports.

The main objective of our donation efforts is to provide genuine and effective help by supporting programs and causes that serve the interests of society as a whole. In order to use resources efficiently and productively, we work with local non-governmental organizations, are committed to long-term cooperation, concentrate our donated funds and monitor how they are used and with what results.

OTP Bank attaches particular importance to its CSR programs implemented via its foundations; the professionalism and result-orientation of these programs meet the standard expected by the Company. The Humanity Social Foundation is active in the field of social issues, while the OTP Fáy András Foundation is responsible for financial and economic education. In 2017 the Foundation's OK Centre trained nearly 17,000 students in approximately 1300 free training groups. The high standard of education at the Centre earned the OK Project a certificate of excellence from KOKOA of Finland.

Responsible employment

Our employees play a key role in OTP Bank's success, and our Bank is therefore committed to creating and retaining a pool of talented and committed employees. Ethical and compliant behaviour constitute the basic principles in our human resource management. OTP Bank's *Collective Agreement* sets out the rights and obligations of it employees. The interests of employees are represented by their trade union. In its *Code of Conduct*, our Bank declares its commitment to providing a safe and healthy working environment and states its expectation of mutual respect between managers and employees, including the prohibition of discrimination and harassment.

OTP Bank's employees (31 December 2017)	Total	Men	Women
Employees, total (no. of persons)*	8,107	2,299	5,808
Distribution by gender:	100%	28%	72%
Fluctuation ratio**	13%	12%	14%

* Active employees on an employment contract (persons)
** compared to the end-of-year headcount; includes termination of employment both by employee and employer, as well as retirement

As the expertise of our employees is our most valuable asset, we treat the training and education of our staff as a high priority. Besides professional knowledge, we also support management skills and improve the transparency of career opportunities. We encourage our talented and committed employees by setting individual career targets and rewarding their performance with competitive remuneration. We consistently employ the principle of "equal pay for equal work". Our Bank lays special emphasis on preventive health within and outside the workplace, offering a complex health insurance package and subsidizing recreation and sports.

Environmental protection

Environmental protection principles

OTP Group is committed to the protection of the environment and the preservation and low-impact use of natural resources. OTP Bank's environmental activities are regulated in its *Environmental Policy*. The Policy safeguards compliance with the law and stipulates the voluntary commitment and responsibility of protecting the environment. Its aim is to consider environmental criteria and their integration into the Bank's business operations in order to minimize the environmental impacts of operating and maintaining the Bank's organization. The Policy also sets out the rules on how to enforce the principles of sustainable procurement.

The Group does not finance transactions that do not meet environmental requirements. The availability of the required permits and authorizations and compliance with their provisions is always verified by external consultants; thereafter the Bank's monitoring activity provides for compliance. The long-term sustainability of environmental impacts is taken into consideration as a subjective factor in the rating of large corporate clients.

OTP Group members operate in full compliance with environmental legislation and received no fines in 2017 either.

OTP Group's main environmental protection aims are to improve its energy efficiency and to reduce the amount of paper it uses.

Energy consumption and business travel

OTP Group uses state-of-the-art technology in new construction and renovation projects.

OTP Bank regularly refurbishes its heating centers, with energy efficiency as a primary criterion. It has employed heat recovery ventilation for several years and is expanding its use of LED lighting . In continuation of earlier development work, we started to install LED lighting in branch interiors in 2017: we refurbished the lighting systems in 12 branches by the end of the year and plan to do the same in 9 other branches in 2018. OTP Bank's new head office building will have LEED Gold certification. In 2017, our subsidiaries in Ukraine and Serbia expanded the use of LED technology in several locations.

We are intensifying our reliance on renewable energy due to financial considerations. OTP Bank's entities in Hungary operate solar panels of a total size of 460 m^2; we have scheduled a pilot to install solar panels on a branch in 2018. The central archives facility owned by Monicomp Zrt has been using geothermal energy for several years. In 2017, OTP banka Hrvatska of Croatia expanded its solar panel network in Pula; in that year, it used as much as 40 MWh of solar power. The subsidiary continues to investigate options for expanding its solar panel systems.

The number of business trips and the size of the vehicle fleet is shaped by the changes in business activities, and it is our practice to plan all trips on a rational basis. We plan to introduce into our Vehicle Policy certain carbon-dioxide limits applicable to new vehicles. Our Croatian subsidiary supported the installation of two electric car charging stations in 2017 and plans to participate in financing further charging stations.

OTP Group is exploiting the possibilities of video conferencing more and more each year. More video conference rooms were added in Hungary and at our Croatian, Russian and Slovakian subsidiaries in 2017. We continue adding new bicycle stands for our customers and employees; in 2017. we did so at the subsidiaries in Bulgaria and Ukraine.

We present the energy consumption figures of OTP Bank. The Bank's overall energy consumption did not change as compared to the previous year. Alongside the implementation of energy-efficient solutions, there has been an expansion in functions that consume energy (e.g. additional digital processes, more brightly lit workplaces, air conditioners, water dispensers).

Energy consumption quantities, OTP Bank	2017
Total energy consumption (GJ)	254,641
Per-capita energy consumption (GJ)	31.98

Energy consumption data are derived from readings; the measured consumption quantities are converted to energy at the local average calorific values. The projection basis for the per-capital figure is the average statistical headcount

Working to reduce paper use

OTP Group set itself the task of reducing paper use and printing both in internal processes and as regards the documents and account statements delivered to customers. But legislative requirements and the expansion of our business has often counteracted this objective. The digital signature pads introduced widely at OTP Bank in 2017 helped prevent paper use and enabled online application for yet more products. Our Croatian subsidiary reduced its paper use by nearly 7% as compared to the previous year; this was greatly facilitated by the introduction of centralized printing in its head office buildings.

Paper usage quantities, OTP Bank	2017
Total paper quantities (t) (office, packaging, indirect)	957
Per capita paper use (kg)*	120

* The projection basis is the average statistical headcount.

OTP Bank has used recycled paper for its account statements and marketing publications for years, and some of its office paper consumption is also recycled. Our aim is to increase the proportion of the latter in the near future. The Croatian subsidiary has used recycled paper almost exclusively for several years, and the Ukrainian subsidiary is investigating options for implementing this practice.

Sustainable use and waste management

We follow a principle of using all our equipment, devices and machines for the reasonably longest possible time. Mindful of the priorities in waste management and the relevant financial considerations, we explicitly aim to use furniture up to the end of their lifecycle, using them multiple times and ensuring interchangeability. OTP Bank, DSK Bank, OTP Bank Romania and OTP banka Srbija all follow the practice of making charitable donations of any furniture no longer used but in good condition, alongside functioning IT equipment (mostly computers and laptops) to institutions and organizations in need. OTP Bank donated a total of 516 computers in 2017. Our Slovakian subsidiary also donated smaller pieces of furniture to charity.

The subsidiaries in Montenegro and Slovakia use toner refills to reduce toner and ink cartridge waste. The Russian subsidiary plans to launch toner refill pilot starting in 2018.

There were no changes in waste collection at the Group in 2017. All members of OTP Group collect and manage hazardous waste and paper with business secrets selectively, in compliance with the law. OTP Bank provides selective collection of non-confidential paper waste and PET bottles at its head office buildings. The Croatian subsidiary has collected waste selectively for years, whereas the Slovakian subsidiary provides selective waste collection wherever locally facilitated by the municipality. DSK Bank operates selective waste collection at its sites in Sofia and Varna. The Romanian subsidiary offers selective collection of paper in its head office building.

Attitude shaping

Several members of our Banking Group have a tradition of raising awareness and joint action to protect environmental and natural resources.

- OTP Bank has been joining the WWF’s Earth Hour initiative for years. In 2017, we helped the Hungarian Hikers' Association popularize hiking.
- The head office of DSK Bank has been active for years in the national PET bottle cap collection scheme; the caps are used for producing wheelchairs. In 2017 the bank took part in the Cycle2Work initiative organized by the Sofia Urban Mobility Centre. For a period of six weeks, the bank’s employees used nine bicycles of the Centre, thus raising awareness and helping improve city air.
- The Slovakian subsidiary planted 273 trees to partially offset its paper use (one tree for every 50 packs of paper purchased). The Bank has also joined “Our City”, a volunteering project to improve the urban environment.
- On the occasion of World Car Free Day, the Romanian subsidiary encouraged its employees to choose an alternative mode of transport. It also announced a 30-day competition to reduce the reliance on cars. The Bank has employed stickers and posters to encourage its employees to behave in environmentally friendly and healthy ways.
- Twice a year, CKB of Montenegro has traditionally taken part in nationwide forestation and environmental protection campaigns.
- Our affiliate in Serbia sends regular e-mails to its employees to advocate environmental awareness.

Risks

OTP Bank analyses and manages the risks pertaining to environmental protection, employment, the respect of human rights and the fight against corruption and bribery within its operational risk management process. Risk management is decentralized; risks are managed by the organizational units where the risks emerge. Potential risks are identified by self assessment. The Group Operational Risk Management Committee decides any risk mitigation measures and orders further investigations. Risk mitigation measures are monitored and verified on a quarterly basis.

NON-FINANCIAL STATEMENT – OTP BANK PLC. (SEPARATE)

The description of the company's policy on environmental protection, social and employment issues, respect for human rights, anti-corruption and bribery, as well as certain non-financial performance indicators can be found in the Environmental policy, environmental projects section.

The business model of the company

OTP Bank is the market-leading credit institution in Hungary. As for its business model, the Bank offers high-quality financial services to retail, private banking, micro and small business, medium and large corporate, as well as municipality clients through both its own physical network and its steadily developing digital channels. The Bank renders comprehensive retail and corporate banking services: its activities include deposit collection from customers and raising money from the money and capital markets. On the asset side, OTP Bank offers mortgage loans, consumer credits, working capital and investment loans to companies, as well as loans to municipalities, whereas its liquidity reserves are invested in money and capital market instruments. Moreover, the Bank provides a wide range of state-of-the-art services, including the areas of wealth management, investment services, payment services, treasury and other services.

In addition, OTP Bank's Hungarian subsidiaries deliver a wide range of further financial services. The Bank owns foreign subsidiaries in many countries of Central and Eastern Europe through capital investments.

Fight against corruption and against the practice of bribery

The Code of Ethics of OTP Bank contains separate chapters on the fight against corruption and against the practice of bribery, also on the acceptance of individual differences and the denial of discrimination (https://www.otpbank.hu/portal/en/EthicalDeclaration, https://www.otpbank.hu/static/portal/sw/file/OTP_EtikaiKodex_EN.pdf). As it can be read in the foreword of the Code, the Bank and its management have adopted the principle of zero tolerance towards corruption and bribery, taking a definite stance against all forms of corruption and giving full support to the fight against corruption. In addition, the Code states that "As an ethical and compliant institution, the Bank and its management are fully committed to ensuring observance of all relevant legislation, including anti-corruption statutes.".

The Bank has set up an ethics reporting system (whistleblowing), which is for the reporting and the handling of the reports on suspected or actual violation of the values set forth in the Code of Ethics, where anonymous reporting of ethics issues is also possible. The Bank conducts inquiries for the purpose of detecting, preventing anomalies in connection with reports made or anomalies it became aware of otherwise.

Through the Bank's ethics reporting system a total of 15 reports were received in 2017, out of which one case's investigation resulted in declaring ethics offense – though not due to corruption, bribery or discrimination.

The Bank has created and maintains its Code of Ethics to keep reputational risk and financial losses, which may incur in relation to corruption, bribery and discrimination, on a minimum level. Both employees and newcomers receive education on the Code of Ethics, and in addition, the acceptance to be bound by it is a prerequisite for their employment.

Non-financial performance indicators

- Internal audit: 173 closed investigations, 1,470 accepted proposals;
- Compliance with Budapest Stock Exchange (BSE) Recommendations (yes/no ratio): 130 yes, 21 no;
- Compliance: 4 audits, 2,105 reports due to suspicion of money laundering;
- Bank security: expected damages arising from crimes detected: HUF 1,103.9 million, prevented damages: HUF 1,779.2 million; reported charges: 3,211; the ratio of bank card abuses to the turnover is much lower than the European average (OTP Bank 0.0078%, European average 0.0433%);
- Ethics issues: 15 ethics reports, establishing ethics offense in 1 case.

LIST OF NON-AUDIT SERVICES BY SERVICE CATEGORIES USED BY THE BANK

Deloitte Auditing and Consulting Ltd. provided the following services to OTP Bank Plc. during 2017:

- Testing of controls (and/or IT controls) that have already been designed and implemented;
- Consultation relating to interpretation and implementation of accounting standards;
- Trainings relating to changes in accounting regulations and professional interpretations;
- Engagements to perform agreed-upon procedures regarding financial information;
- Assurance engagements other than audits or reviews of historical financial information.

SUPPLEMENTARY DATA

RESTATEMENT OF CERTAIN ITEMS IN THE STATEMENT OF FINANCIAL POSITION

According to the announcement made by OTP Bank Plc. on 28 June 2017 the share swap agreement between OTP Bank Plc. and MOL Plc. has been amended. Taking into account the economic substance of the deal and the amendment of certain elements of the contract, in order to show a full and reliable picture, the Bank decided to account for the deal on a net base, which provides a better reflection of the deal's economic substance, rather than booking it on a gross base. Pursuant to the change, the MOL shares (previously booked on the trading securities balance sheet line) and the related financial liabilities have been netted off. Consequently, only the net fair value of the share swap deal is presented in the balance sheet.

The consolidated balance sheet and the balance sheet of OTP Bank and OTP Core were affected by the change. As a result of the above mentioned decision, the balance sheets for the 2016 base period have been restated. The restatement was neutral on the shareholders' equity and the statement of profit and loss.

Affected balance sheet lines were as follows: Financial assets at fair value through profit and loss, Other assets, Total assets, Other liabilities, Total liabilities, Total liabilities and shareholders' equity. Consequently, performance indicators with total assets in their denominators changed retroactively for 2016.

Affected performance indicators were as follows: ROA (from adjusted net earnings), Operating profit margin, Total income margin, Net interest margin, Net fee and commission margin, Net other non-interest income margin, Cost-to-asset ratio, Total risk cost-to-asset ratio, Leverage.

The restatement affected the separate regulatory capital of OTP Bank Plc. and the consolidated regulatory capital, and thus the capital adequacy ratios, too, through the Prudential filters which is part of the Common Equity Tier 1 capital. The restated consolidated regulatory capital and capital adequacy ratios have been presented for 2016. (The restatement did not affect the separate regulatory capital of OTP Bank under Hungarian Accounting Standards at the end of 2016.)

ADJUSTMENTS OF THE CONSOLIDATED IFRS BALANCE SHEET LINES

Starting from 3Q 2017, in the adjusted balance sheets presented in the analytical section of this Report the total amount of accrued interest receivables related to DPD90+ loans were netted with the provisions created in relation to the total exposure toward those particular clients, in case of the affected Group members. Therefore, this adjustment made on the accounting balance sheet has an impact on the consolidated gross customer loans and allowances for loan losses.

	2017 HUF million
Gross customer loans (incl. accrued interest receivables related to loans)	7,726,631
(-) Accrued interest receivables related to DPD90+ loans	36,212
Gross customer loans (adjusted)	7,690,419
Allowances for loan losses	(738,797)
(-) Allocated provision on accrued interest receivables related to DPD90+ loans	(36,212)
Allowances for loan losses (adjusted)	(702,585)

FOOTNOTES TO THE TABLE 'CONSOLIDATED NET PROFIT BREAKDOWN BY SUBSIDIARIES (IFRS)'

General note: regarding OTP Core and other subsidiaries, profit after tax is calculated without received dividends and net cash transfers (and other adjustment items). Dividends and net cash transfers received from non-group member companies are shown on a separate line in one sum in the table, regardless to the particular receiver or payer group member company.

(1) OTP Core, Corporate Centre and foreign banks aggregated, excluding one-timers.

(2) OTP Core is an economic unit for measuring the result of core business activity of OTP Group in Hungary. Financials of OTP Core are calculated from the partially consolidated IFRS financial statements of certain companies engaged in OTP Group's 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; OTP Bank Employee Stock Ownership Plan Organization was included from 4Q 2016; OTP Card Factory Ltd., OTP Facility Management Llc., MONICOMP Ltd. and OTP Real Estate Lease Ltd. were included from 1Q 2017. The consolidated accounting results of these companies are segmented into OTP Core and Corporate Centre. Latter is a virtual entity.

(3) Within OTP 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 OTP 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 Bank 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.

(4) From 1Q 2015 the performance of OTP Bank Russia does not contain the volumes and financial result of Touch Bank. From 1Q 2015 the statement of profit or loss and balance sheet of LLC MFO "OTP Finance" was included in the Russian performance.

(5) Touch Bank is part of OTP Bank Russia from legal point of view, and it is operating under the same banking license, but as a separate digital banking business line. In order to provide transparent information Touch Bank is presented as a separate virtual entity.

(6) From 4Q 2008 figures are based on the aggregated financial statements of OTP Bank JSC and LLC OTP Leasing Ukraine, from 4Q 2009 the result of LLC OTP Factoring Ukraine was also aggregated.

(7) From 3Q 2010 the result and balance sheet of OTP Factoring Bulgaria LLC was included. DSK Group balance sheet contains the loans sold to the factoring company at before sale gross value and the related provisions, as well.

(8) Net earnings are adjusted with the result of CIRS swap transactions executed with OTP Bank Hungary in relation to interbank financing. Before transfer balance sheet numbers are displayed. From 2Q 2010 the statement of profit or loss and balance sheet of OTP Faktoring SRL was included. Banca Millennium was consolidated into OBR's results from 1Q 2015.

(9) Including the financial performance of OTP Factoring Serbia d.o.o from 4Q 2010. Vojvodjanska banka has been consolidated from 4Q 2017.

(10) Splitska banka was consolidated into OBH's results from 2Q 2017. Banco Popolare Croatia was consolidated into OBH's results from 2Q 2014. From 1Q 2015 including the financial result and volumes of OTP Faktoring d.o.o.

(11) From 2012 on P&L data and related indices are adjusted for the special banking tax and the Slovakian Deposit Protection Fund contributions being introduced again in 2014, as well as the contribution into the Resolution Fund.

(12) Including the financial performance of OTP Factoring Montenegro d.o.o.

(13) Aggregated after tax profit of Merkantil Bank and Merkantil Car without dividends, net cash transfer, other adjustment items and provisioning for investments in subsidiaries.

(14) OTP Leasing Romania IFN S.A. (Romania), OTP Leasing d.d. and SB Leasing d.o.o. (Croatia), DSK Leasing AD (Bulgaria), OTP Lizing d.o.o, OTP Services d.o. (Serbia).

(15) LLC AMC OTP Capital (Ukraine) and OTP Asset Management SAI S.A. (Romania), DSK Asset Management (Bulgaria).

(16) OTP Buildings s.r.o. (Slovakia), OTP Real Slovensko s.r.o. (Slovakia), Velvin Ventures Ltd. (Belize), Debt Management Project 1 Montenegro d.o.o. (Montenegro), R.E. Four d.o.o., Novi Sad (Serbia), SC Aloha Buzz SRL, SC Favo Consultanta SRL, SC Tezaur Cont SRL (Romania), Cresco d.o.o. (Croatia), OTP Osiguranje d.d. (Croatia).

(17) Total Hungarian subsidiaries: sum of the adjusted after tax results of Hungarian group members, Corporate Centre and related eliminations.

(18) Total Foreign subsidiaries: sum of the adjusted after tax profits of foreign subsidiaries and one-off items (after tax).

CALCULATION OF ADJUSTED LINES OF IFRS PROFIT OR LOSS STATEMENTS PRESENTED IN THE BUSINESS REPORT

In order to present Group level trends in a comprehensive way in the Report, the presented consolidated and separate profit and loss statements of this report were adjusted in the following way, and the adjusted P&Ls are shown and analysed in the Report. Consolidated accounting figures together with Separate accounting figures of OTP Bank are still disclosed in the Supplementary Data section.

Adjustments:

- The after tax effect of adjustment items (certain, typically non-recurring items from banking operations' point of view) are shown separately in the Statement of Profit or Loss. The following adjustment items emerged in the presented periods: received dividends, received and paid cash transfers, the effect of goodwill/investment impairment charges, special tax on financial institutions, the impact of fines imposed by the Hungarian Competition Authority, the effect of acquisitions, the corporate tax impact of switching to IFRS from HAR in Hungary, revaluation of deferred taxes recognized in the P&L due to the corporate tax rate cut in Hungary, and the gain on the sale of Visa Europe shares. Beside the Slovakian banking levy, the total amount of the special banking tax includes and the Slovakian Deposit Protection Fund contributions being introduced again in 2014, and the contribution into the Resolution Fund in Slovakia, too. The special banking tax, however, does not include the special tax levied on the result of investment services in the year of 2017 in Hungary, this item is presented among the operating expenses.
- Other non-interest income elements stemming from provisioning release in connection with provisions on loans originated before the acquisitions of the subsidiaries have been reclassified to and deducted from the volume of provisions for possible loan losses in the income statement.
- Other non-interest income is shown together with gains/losses on real estate transactions, but without the above mentioned income from the release of pre-acquisition provisions and without received cash transfers. However other non-interest expenses stemming from non-financial activities are added to the adjusted net other non-interest income line, therefore the latter incorporates the net amount of other non-interest income from non-financial activities.
- From 4Q 2016 certain components of the result on derivative instruments have been presented on a separate line in the accounting P&L structure: on the Gains and losses on derivative financial instruments line (certain other components were continued to be booked on the net interest income and foreign exchange result line). In the previous accounting and adjusted P&L structure, items currently booked on the Gains and losses on derivative financial instruments line were accounted for on the net interest income, foreign exchange result and gains/losses on securities line. In 4Q 2016 the full annual amounts have been moved in one sum to the Gains and losses on derivative financial instruments line. In the adjusted P&L structure this new line constitutes part of the Net other non-interest result among Other net non-interest income.
- From 2Q 2014 OTP Bank's share in the change in the shareholders' equity of companies consolidated with equity method is reclassified from the After tax dividends and net cash transfers line to the Net other non-interest result (adj.) without one-offs line. Furthermore, received cash transfers within the framework of the subsidy programme targeting the expansion of POS network in Hungary in 3Q 2017 were reclassified from the After tax dividends and net cash transfers line to the Net other non-interest result (adj.) without one-offs line.
- Out of other expenses, other provisions are deducted and shown separately as other risk costs in the adjusted income statement. Other provisions contain provisioning on off-balance sheet liabilities and on legal contests, provisioning on securities, shares and other investments as well as provisioning on other assets.
- Other administrative expenses have been adjusted in the following way in order to create a category comprising administrative cost items exclusively. Other costs and expenses and other non-interest expenses were included into the adjusted Other non-interest expenses. At the same time, the following cost items were excluded from adjusted other non-interest expenses: paid cash transfers – except for movie subsidies and cash transfers to public benefit organisations –, Other other non-interest expenses stemming from non-financial activities, and special tax on financial institutions.
- Tax deductible transfers (offset against corporate taxes) paid by Hungarian group members from 3Q 2012 were reclassified from Other non-interest expenses to Corporate income tax. As a result, the net P&L effect of these transfers (i.e. the paid transfer less the related corporate tax allowances) is recognised in the corporate income tax line of the adjusted P&L. The amount of tax deductible transfers offset against the special tax on financial institutions is shown on a net base on the special tax on financial institutions line.
- The financial transaction tax paid from the beginning of 2013 in Hungary is reclassified from other (administrative) expenses to net fee and commission income, both on consolidated and OTP Core level.
- The *Net insurance result* line which appeared in the consolidated accounting P&L structure from 3Q 2017 is presented on the *Net other non-interest result* line within the *Other net non-interest income* in the adjusted P&L structure.
- OTP Group is hedging the revaluation result of the FX provisions on its FX loans and interest claims by keeping hedging open FX positions. In the accounting statement of profit or loss, the revaluation of FX provisions is part of the risk costs (within line "Provision for loan losses"), other provisions and net interest income lines, whereas the revaluation result of the hedging open FX positions is made through other non-interest income (within line "Foreign exchange result, net"). The two items have the same absolute amount but an opposite sign. As an adjustment to the accounting statement of income, these items are eliminated from the adjusted P&L. By modifying only the structure of the income statement, this correction does not have any impact on the bottom line net profits.

- The Compensation Fund (established in Hungary in order to indemnify the victims of Quaestor and Hungarian Securities Ltd.) contributions booked from 1Q 2017 are recognized on the Other administrative expenses line of the accounting income statement, and are presented on the Special tax on financial institutions line and the financial transaction tax in the adjusted P&L structure.
- In case of OTP Banka Slovensko and OTP Bank Romania the total revaluation result of intra-group swap deals – earlier booked partly within the net interest income, but also on the Foreign exchange gains and Net other non-interest result lines within total Other non-interest income – is presented on a net base on the net interest income line starting from 1Q 2016.
- Starting from 3Q 2016 the Ukrainian subsidiary started to calculate interest revenues based on net loan volumes. This resulted in a one-off structural correction between the net interest income and provision for loan losses in 3Q 2016.
- Performing indicators (such as cost/income ratio, net interest margin, risk cost to average gross loans as well as ROA and ROE ratios) presented in this report are calculated on the basis of the adjusted profit and loss statement excluding adjustment items (unless otherwise indicated). Adjustment items include received dividends and net cash transfers, the effect of goodwill/investment impairment charges, special tax on financial institutions, the impact of fines imposed by the Hungarian Competition Authority, the effect of acquisitions, the corporate tax impact of switching to IFRS from HAR in Hungary, the revaluation of deferred taxes recognized in the P&L due to the corporate tax rate cut in Hungary, and the gain on the sale of Visa Europe shares.
- Within the report, FX-adjusted statistics for business volume developments and their product breakdown are disclosed, too. For FX adjustment, the closing cross currency rates for the current period were used to calculate the HUF equivalent of loan and deposit volumes in the base periods. Thus the FX adjusted volumes will be different from those published earlier.

ADJUSTMENTS ON THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (IFRS)

	2016 HUF million	2017 HUF million
Net interest income	**519,729**	**553,755**
(-) Revaluation result of FX provisions	823	190
(+) Presentation of the revaluation result of intra-group swaps on the net interest income line realized at the Romanian and Slovakian operations	(440)	(103)
(+) Structural correction affecting Ukrainian interest revenues and provision for loan losses in 3Q 2016	3,484	0
(-) Netting of interest revenues on DPD90+ loans with the related provision (booked on the Provision for loan losses line) at OTP Core		5,961
(-) Effect of acquisitions		847
Net interest income (adj.)	**521,949**	**546,654**
Net fees and commissions	**222,991**	**261,193**
(+) Financial Transaction Tax	(47,025)	(51,770)
(-) Effect of acquisitions		(5
Net fees and commissions (adj.)	**175,966**	**209,428**
Foreign exchange result	**29,305**	**16,579**
(-) Revaluation result of FX positions hedging the revaluation of FX provisions	16,804	(4,350)
(-) Presentation of the revaluation result of intra-group swaps on the net interest income line realized at the Romanian and Slovakian operations	(765)	(814)
(-) Effect of acquisitions		122
Foreign exchange result (adj.)	**13,266**	**21,622**
Gain/loss on securities, net	**20,828**	**7,930**
(-) Gain on the sale of Visa Europe shares	15,924	0
Gain/loss on securities, net (adj.) with one-offs	**4,904**	**7,930**
(-) Revaluation result of the treasury share swap agreement (booked as Gain on securities, net (adj) at OTP Core)	(751)	862
Gain/loss on securities, net (adj.) without one-offs	**5,655**	**7,068**
Gains and losses on real estate transactions	**1,923**	**2,093**
(+) Other non-interest income	**17,704**	**62,968**
(+) Gains and losses on derivative financial instruments	**6,838**	**5,291**
(+) Net insurance result		**410**
(-) Received cash transfers	37	584
(+) Received cash transfers within the framework of the subsidy programme targeting the expansion of POS network in Hungary		560
(-) Non-interest income from the release of pre-acquisition provisions	735	9,750
(+) Other other non-interest expenses	(29,221)	(9,666)
(+) Change in shareholders' equity of companies consolidated with equity method	(163)	413
(-) Effect of acquisitions	0	32,271
(-) Presentation of the revaluation result of intra-group swaps on the net interest income line realized at the Romanian and Slovakian operations	325	712
(-) One-off impact of regulatory changes related to CHF consumer contracts in Croatia	(9,068)	(54)
(-) One-off impact of the CHF mortgage loan conversion programme and regulatory changes related to mortgage loans in Romania	(18,347)	(363)
(-) Impact of fines imposed by the Hungarian Competition Authority	3,922	194
(-) Netting of refunds related to legal cases (accounted for on the Net other non-interest result line) with the release of provisions created earlier for these cases (accounted for on the Other provisions line) from 1Q 2017 at OTP Bank Romania		(1,200)
Net other non-interest result (adj.) with one-offs	**19,478**	**20,175**
(-) Gain on the repurchase of own Upper and Lower Tier2 Capital (booked as Net other non-interest result (adj) at OTP Core and at the Corporate Centre)	0	0
Net other non-interest result (adj.) without one-offs	**19,478**	**20,175**
Provision for loan losses	**(93,472)**	**(40,848)**
(+) Non-interest income from the release of pre-acquisition provisions	735	9,750
(-) Revaluation result of FX provisions	(17,648)	4,144
(-) Expected one-off impact of regulatory changes related to CHF consumer contracts in Croatia	(574)	0
(-) Expected one-off impact of the CHF mortgage loan conversion programme and regulatory changes related to mortgage loans in Romania	(4,776)	1,777
(+)Structural correction affecting Ukrainian interest revenues and provision for loan losses in 3Q 2016	(3,484)	0
(+) Netting of interest revenues on DPD90+ loans with the related provision (booked on the Provision for loan losses line) at OTP Core		5,961
Provision for loan losses (adj.)	**(73,223)**	**(31,058)**
Dividend income	**3,054**	**4,152**
(+) Received cash transfers	37	584
(+) Paid cash transfers	(13,131)	(11,496)
(-) Sponsorships, subsidies and cash transfers to public benefit organisations	(13,130)	(11,495)
(-) Received cash transfers within the framework of the subsidy programme targeting the expansion of POS network in Hungary		560
(-) Dividend income of swap counterparty shares kept under the treasury share swap agreement	2,841	3,082
(-) Change in shareholders' equity of companies consolidated with equity method	(163)	413
After tax dividends and net cash transfers	**412**	**680**
Depreciation	**(44,428)**	**(49,493)**
(-) Effect of acquisitions		(2,507)
Depreciation (adj.)	**(44,428)**	**(46,482)**
Personnel expenses	**(191,443)**	**(213,886)**
(-) Effect of acquisitions	0	(287)
Personnel expenses (adj.)	**(191,443)**	**(213,599)**
Income taxes	**(33,944)**	**(41,503)**
(-) Corporate tax impact of goodwill/investment impairment charges	11,552	(5,561)
(-) Corporate tax impact of the special tax on financial institutions	3,120	1,561
(+) Tax deductible transfers (offset against corporate taxes)	(9,565)	(2,162)
(-) Corporate tax impact of the effect of fines imposed by the Hungarian Competition Authority	0	(17)
(-) Corporate tax impact of the effect of acquisitions	0	(2,298)
(-) Corporate tax impact of the gain on the sale of Visa Europe shares	(2,764)	0
(-) Corporate tax impact of switching to IFRS from HAR in Hungary	(5,766)	0
(-) Revaluation of deferred taxes recognized in the P&L due to the corporate tax rate cut in Hungary	(6,054)	0
Corporate income tax (adj.)	**(43,596)**	**(37,350)**

	2016 HUF million	2017 HUF million
Other operating expense, net	**(36,405)**	**(51,230)**
(-) Other costs and expenses	(5,639)	(5,795)
(-) Other non-interest expenses	(42,351)	(21,162)
(-) Effect of acquisitions	0	(9,504)
(-) Revaluation result of FX provisions	22	16
(-) Expected one-off impact of regulatory changes related to CHF consumer contracts in Croatia	9,642	54
(-) Expected one-off impact of the CHF mortgage loan conversion programme and regulatory changes related to mortgage loans in Romania	23,123	(1,414)
(-) Impact of fines imposed by the Hungarian Competition Authority	(1,207)	0
(-) Netting of refunds related to legal cases (accounted for on the Net other non-interest result line) with the release of provisions created earlier for these cases (accounted for on the Other provisions line) from 1Q 2017 at OTP Bank Romania		1,200
Other provisions (adj.)	**(19,995)**	**(14,624)**

Other administrative expenses	**(220,228)**	**(236,072)**
(+) Other costs and expenses	(5,639)	(5,795)
(+) Other non-interest expenses	(42,351)	(21,162)
(-) Paid cash transfers	(13,131)	(11,496)
(+) Film subsidies and cash transfers to public benefit organisations	(13,130)	(11,495)
(-) Other other non-interest expenses	(29,221)	(9,666)
(-) Special tax on financial institutions (recognised as other administrative expenses)	(17,069)	(16,794)
(-) Tax deductible transfers (offset against corporate taxes)	(9,565)	(2,162)
(-) Financial Transaction Tax	(47,025)	(51,770)
(-) Impact of fines imposed by the Hungarian Competition Authority	(793)	0
(-) Effect of acquisitions		(931)
Other non-interest expenses (adj.)	**(164,545)**	**(181,706)**

STATEMENT OF PROFIT OR LOSS OF OTP BANK PLC., ACCORDING TO IFRS STANDARDS AS ADOPTED BY THE EUROPEAN UNION (SEPARATE, AUDITED)[1]

	2017 HUF million	2016 HUF million	Change %
Loans	120,960	125,170	(3)
Placements with other banks	47,776	102,317	(53)
Amounts due from banks and balances with the National Banks	1,403	9,830	(86)
Securities available-for-sale	30,100	35,766	(16)
Securities held-to-maturity	44,737	41,327	8
Interest income	*244,976*	*314,410*	*(22)*
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	56,893	103,668	(45)
Deposits from customers	9,244	22,853	(60)
Liabilities from issued securities	151	1,329	(89)
Subordinated bonds and loans	3,033	13,721	(78)
Interest expense	*69,321*	*141,571*	*(51)*
Net interest income	**175,655**	**172,839**	**2**
Provision for impairment on loans	7,807	13,629	(43)
Provision for impairment on placement losses	-32	3	(1167)
Provision for impairment on loans and placement losses	7,775	13,632	(43)
NET INRETEST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES	167,880	159,207	5
Income from fees and commissions	206,759	189,731	9
Expense from fees and commissions	30,355	26,254	16
NET PROFIT FROM FEES AND COMMISSIONS	176,404	163,477	8
Foreign exchange gains, net (-)/(+)	4,555	5,075	(10)
Gains / (losses) on securities, net	7,946	44,999	(82)
Gains on derivative instruments, net	2,030	656	209
Dividend income	82,638	90,467	(9)
Other operating income	9,990	8,583	16
Other operating expense	71,359	(28,851)	(347)
NET OPERATING RESULT	178,518	120,929	48
Personnel expenses	90,444	88,720	2
Depreciation and amortization	20,486	21,872	(6)
Other administrative expenses	141,455	139,547	1
OTHER ADMINISTRATIVE EXPENSES	252,385	250,139	1
PROFIT BEFORE INCOME TAX	**270,417**	**193,474**	**40**
Income tax	18,867	21,096	(11)
NET PROFIT FOR THE PERIODS	**251,550**	**172,378**	**46**
From this, attributable to non-controlling interest	0	0	
NET PROFIT FOR THE PERIODS ATTRIBUTABLE OWNERS OF THE COMPANY	**251,550**	**172,378**	**46**

[1] The rows of the table are based on audited numbers, but some rows differ from audited data (merged or different level of aggregation).

STATEMENT OF FINANCIAL POSITION OF OTP BANK PLC., ACCORDING TO IFRS STANDARDS AS ADOPTED BY THE EUROPEAN UNION (SEPARATE, AUDITED)[1]

	2017 HUF million	2016 HUF million (Restated)	Change %
Cash, amounts due from banks and balances with the National Bank of Hungary	399,124	928,846	(57)
Placements with other banks, net of allowance for placement losses	978,098	915,654	7
Financial assets at fair value through profit or loss	303,927	168,188	81
Securities available-for-sale	1,735,902	1,484,522	17
Loans, net of allowance for loan losses	2,145,046	1,902,937	13
Investments in subsidiaries, associates and other investments	967,414	668,869	45
Securities held-to-maturity	1,043,779	858,150	22
Tangible and intangible assets	100,537	92,395	9
Tangible assets	65,286	62,361	5
Intangible assets	32,877	27,767	18
Investment property	2,374	2,267	5
Other assets	98,055	133,571	(27)
TOTAL ASSETS	**7,771,882**	**7,153,132**	**9**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	694,533	646,271	7
Deposits from customers	5,192,869	4,745,051	9
Liabilities from issued securities	60,304	104,103	(42)
Financial liabilities at fair value through profit or loss	79,545	96,668	(18)
Other liabilities	210,539	238,258	(12)
Subordinated bonds and loans	108,835	110,358	(1)
TOTAL LIABILITIES	**6,346,625**	**5,940,709**	**7**
Share capital	28,000	28,000	0
Retained earnings and reserves	1,155,247	1,020,754	13
Net earnings for the year	251,550	172,378	46
Treasury shares	(9,540)	(8,709)	10
Non-controlling interest	0	0	
TOTAL SHAREHOLDERS' EQUITY	**1,425,257**	**1,212,423**	**18**
TOTAL LIABILTITIES AND SHAREHOLDERS' EQUITY	**7,771,882**	**7,153,132**	**9**

[1] The rows of the table are based on audited numbers, but some rows differ from audited data (merged or different level of aggregation).

STATEMENT OF PROFIT OR LOSS OF OTP BANK PLC., ACCORDING TO IFRS STANDARDS AS ADOPTED BY THE EUROPEAN UNION (CONSOLIDATED, AUDITED)[1]

	2017 HUF million	2016 HUF million	Change %
Loans	521,121	510,449	2
Placements with other banks	42,686	74,588	(43)
Amounts due from banks and balances with the National Banks	1,444	9,866	(85)
Securities held for trading	0	0	
Securities available-for-sale	34,442	34,557	0
Securities held-to-maturity	56,343	51,427	10
Other interest income	10,479	8,804	19
Interest income	*666,515*	*689,691*	*(3)*
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	46,475	75,925	(39)
Deposits from customers	50,995	72,554	(30)
Liabilities from issued securities	5,727	4,726	21
Subordinated bonds and loans	2,259	10,239	(78)
Other interest expense	7,303	6,518	12
Interest expense	*112,759*	*169,962*	*(34)*
Net interest income	**553,756**	**519,729**	**7**
Provision for impairment on loans	40,620	93,605	(57)
Provision for impairment on placement losses	228	(132)	(273)
Provision for impairment on loans and placement losses	40,848	93,473	(56)
NET INRETEST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES	512,908	426,256	20
Income from fees and commissions	315,606	272,235	16
Expense from fees and commissions	54,413	49,244	10
NET PROFIT FROM FEES AND COMMISSIONS	261,193	222,991	17
Foreign exchange gains, net (-)/(+)	16,579	29,304	(43)
Gains on derivative instruments, net	5,291	6,838	(22)
Gains / (losses) on securities, net	7,930	20,828	(62)
Gains on real estate transactions	2,093	1,923	9
Dividend income	4,152	3,054	36
Net insurance result	409	0	
Other operating income	62,967	17,705	256
Other operating expense	(51,230)	(36,406)	41
NET OPERATING RESULT	48,191	43,246	11
Personnel expenses	213,886	191,442	12
Depreciation and amortization	49,492	44,427	11
Other administrative expenses	236,072	220,229	7
OTHER ADMINISTRATIVE EXPENSES	499,450	456,098	10
PROFIT BEFORE INCOME TAX	**322,842**	**236,395**	**37**
Income tax	41,503	33,943	22
NET PROFIT FOR THE PERIODS	**281,339**	**202,452**	**39**
From this, attributable to non-controlling interest	(197)	(242)	(19)
NET PROFIT FOR THE PERIODS ATTRIBUTABLE OWNERS OF THE COMPANY	**281,142**	**202,210**	**39**

[1] The rows of the table are based on audited numbers, but some rows differ from audited data (merged or different level of aggregation).

FINANCIAL POSITION OF OTP BANK PLC., ACCORDING TO IFRS STANDARDS AS ADOPTED BY THE EUROPEAN UNION (CONSOLIDATED, AUDITED)[1]

	2017 HUF million	2016 HUF million (Restated)	Change %
Cash, amounts due from banks and balances with the National Bank of Hungary	1,198,045	1,625,357	(26)
Placements with other banks, net of allowance for placement losses	462,180	363,530	27
Financial assets at fair value through profit or loss	344,417	189,778	81
Securities available-for-sale	2,174,718	1,527,093	42
Loans, net of allowance for loan losses	6,987,834	5,736,232	22
Investments in subsidiaries, associates and other investments	12,269	9,836	25
Securities held-to-maturity	1,310,331	1,114,227	18
Tangible and intangible assets	413,390	355,516	16
Tangible assets	237,321	193,485	23
Intangible assets	176,069	162,031	9
Other assets	287,044	287,472	0
TOTAL ASSETS	**13,190,228**	**11,209,041**	**18**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	472,068	543,775	(13)
Deposits from customers	10,233,471	8,540,583	20
Liabilities from issued securities	250,320	146,900	70
Financial liabilities at fair value through profit or loss	69,874	75,871	(8)
Other liabilities	448,412	403,805	11
Subordinated bonds and loans	76,028	77,458	(2)
TOTAL LIABILITIES	**11,550,173**	**9,788,392**	**18**
Share capital	28,000	28,000	0
Retained earnings and reserves	1,390,737	1,247,268	12
Net earnings for the year	281,142	202,210	39
Treasury shares	(63,289)	(60,121)	5
Non-controlling interest	3,465	3,292	5
TOTAL SHAREHOLDERS' EQUITY	**1,640,055**	**1,420,649**	**15**
TOTAL LIABILTITIES AND SHAREHOLDERS' EQUITY	**13,190,228**	**11,209,041**	**18**

[1] The rows of the table are based on audited numbers, but some rows differ from audited data (merged or different level of aggregation).

FINANCIAL STATEMENTS ON 2017

IFRS (SEPARATE)

OTP BANK PLC.
SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017
(in HUF mn)

	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

Dr. Sándor Csányi
Chairman and Chief Executive Officer

OTP BANK Nyrt.

OTP BANK PLC.
SEPARATE STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2017 (in HUF mn)

	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

OTP BANK PLC.
SEPARATE STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017 (in HUF mn)

	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**

OTP BANK PLC.
SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017 (in HUF mn)

	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**

OTP BANK PLC.
SEPARATE STATEMENT OF CASH-FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017 (in HUF mn)

	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)**

OTP BANK PLC.
SEPARATE STATEMENT OF CASH-FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017 (in HUF mn) [continued]

	Note	2017	2016 (Restated)
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[17]	*4.*	**347,854**	**880,266**

[17] See Note 4

OTP BANK PLC.
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: http://www.otpbank.hu/

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

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

Due to Hungarian legislation audit services are statutory for OTP Bank. Disclosure information about the auditor: Deloitte Auditing and Consulting Ltd. (000083), 1068 Budapest Dózsa György Street 84/C. Registered under 01-09-071057 by Budapest-Capital Regional Court, as registry court. Statutory registered auditor: Gábor Gion, registration number: 005225.

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:

- **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.

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

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

Implementation of IFRS 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.

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.

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.

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.

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

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

Impairment [continued]

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 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 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).

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.4. Investments in subsidiaries, associates and other investments [continued]

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 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.

[1] First In First Out

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.6.2. Derivative financial instruments [continued]

Foreign exchange swaps and interest rate swaps

The Bank enters into foreign-exchange swap and interest rate swap (IRS) transactions. The swap transaction is 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 counter-parties. The Bank's forward rate agreements were transacted for management of interest rate exposures.

Foreign exchange options

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

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

Changes in fair value of derivatives that are designated and qualify as cash-flow hedges and that prove to be highly effective in relation to hedged risk are recognized 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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.21. Income tax

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

2.22. Off-balance sheet commitments and contingent liabilities

In the ordinary course of its business, the Bank has entered into off-balance sheet commitments such as guarantees, commitments to extend credit, letters of credit and transactions with financial instruments. The provision on off-balance sheet commitments and contingent liabilities is maintained at a level adequate to absorb probable future losses. Management determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

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

2.23. Share-based payment and employee benefit

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

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

2.24. Separate statement of cash-flows

For the purposes of reporting cash-flows, cash and cash equivalents include cash, due from banks and balances with the NBH 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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.

in HUF million

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

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**

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

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

	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[1]	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[2]	16,551	18,240	8,231
Subtotal	**97,212**	**123,576**	**158,577**
Total	**303,927**	**168,188**	**180,717**

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

[2] incl.: FX, equity, commodity and index futures; FX forward; commodity and equity swap; FRA; FX option (See Note 2.6.2). 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

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

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

	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**

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

	2017	2016
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[1]	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[2]	(1,397)	-
Provision for the period	76,050	47,249
Release of provision	(85,280)	(54,752)
Partial write-off[3]	(11,200)	(825)
Closing balance	**69,508**	**91,335**

[1] incl. housing loans
[2] Amount reclassified from Loans, Net of Allowance for Loan Losses to Other Assets.
[3] See Note 2.11.

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

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.

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

Significant subsidiaries

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

	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**

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

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[1]	(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 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**

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

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

Significant associates

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

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%*	

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 before transaction	Registered capital after transaction	Change in capital reserve	Amount of 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.

[1] Based on unaudited financial statements.

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

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

For the year ended 31 December 2016

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

Cost	2017	2016
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[1] (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[2]	(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[3]	7,991	27,603	41,905
Other highlighted line items	**18,139**	**35,489**	**75,673**
Total	**98,055**	**133,571**	**152,604**

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**

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

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

	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[1]	**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	(0.4%)-1.9%	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%	2.30%
Average interest on amounts due to banks in foreign currency	2.90%	1.99%

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**

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

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

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%

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

Issued securities denominated in foreign currency as at **31 December 2017** (in HUF mn):

	Name	Date of issuance	Maturity	Currency	Nominal value in FX million	Nominal value in HUF million	Interest conditions (in % actual)		Hedged
1	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.

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

Issued securities denominated in HUF as at **31 December 2017** (in HUF mn)

	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	Egyéb			226	indexed	hedged
	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[1]	11,589	14,097
Total	**79,545**	**96,668**

NOTE 18: OTHER LIABILITIES[2] (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.[3]	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**

[1] incl.: FX, equity, commodity and index futures; FX forward; commodity and equity swap; FRA; FX option

[2] 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.

[3] The Bank will purchase investment of OTP Faktoring Ltd. in OTP Serbia Factoring d.o.o.

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

Fair value of derivative financial instruments[1] 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%

[1] See Note 38 for details.

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)

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.

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

The equity correlation table of the Bank based on paragraph 114/B of Act on Accounting as at 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 Shareholder's equity in accordance with IFRS	**28,000**	**52**	**31,835**	**1,430,378**	**(55,468)**	**(9,540)**	**-**	**-**	**-**	**1,425,257**
Unused portion of reserve for developments	-	-	-	(973)	-	-	-	973	-	-
Other comprehensive income	-	-	-	(70,200)	-	-	70,200	-	-	-
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**

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

The equity correlation table of the Bank based on paragraph 114/B of Act on Accounting as at 1 January 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 Shareholder'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**

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

	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)

	2017	2016
Other operating income:		
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)**

NOTE 25: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF mn) [continued]

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:		
Taxes, other than income tax[1]	(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)**

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**

[1] 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) [continued]

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 [1]	(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
Income tax adjustments due to permanent differences are as follows:		
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%

[1] It contains provision on supplementary payments in relation with OT P Faktoring Ltd., Air Invest Llc. and CIL Babér Llc.

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.

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

27.1. Credit risk [continued]

27.1.1 Analysis by loan types [continued]

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**

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

27.1. Credit risk [continued]

27.1.1 Analysis by loan types [continued]

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**

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

27.1. Credit risk [continued]

27.1.1 Analysis by loan types [continued]

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**

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

27.1. Credit risk [continued]

27.1.1 Analysis by loan types [continued]

Loans individually assessed for provision [continued]

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[1]:

	31 December 2017		31 December 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)**

[1] The carrying amount of the loan portfolio does not contain accrued interest.

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

27.1. Credit risk [continued]

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	31 December 2017	31 December 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	31 December 2017	31 December 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%.

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

27.1. Credit risk [continued]

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[1]	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.

[1] incl.: project and syndicated loans

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

27.1. Credit risk [continued]

Financial instruments by rating categories[1]

Held-for-trading securities as at 31 December 2017

	A1	A2	A3	Aa3	Aa3	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**

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**

[1] Moody's ratings

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

27.1. Credit risk [continued]

Held-to-maturity securities as at 31 December 2017

	Ba1	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	31 December 2017	31 December 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 (in HUF mn):

Historical VaR (99%, one-day) by risk type	Average	
	2017	2016
Foreign exchange	274	113
Interest rate	113	69
Equity instruments	10	2
Diversification	-	-31
Total VaR exposure	**397**	**153**

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

27.2. Market risk [continued]

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.

	Effects to the P&L in 3 months period	
Probability	**2017**	**2016**
	In HUF billion	**In HUF billion**
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 0.0% (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)

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

27.2. Market risk [continued]

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 (HUF million):

Description	2017		2016	
	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.

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

27.3. Capital management [continued]

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:

	2017 Basel III	**2016 Basel III**
Tier 1 capital	1,311,383	1,022,394
Common equity Tier 1 capital (CET1)	*1,311,383*	*1,022,394*
Additional Tier 1 capital (AT1)	-	-
Tier 2 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**
CET 1 ratio	29.01%	24.78%
Capital adequacy ratio	**31.41%**	**27.66%**

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

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

NOTE 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 transactions that are not reflected on the statement of financial position and are referred to as off-balance sheet financial instruments. The following represents notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

Contingent liabilities and commitments

	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.

NOTE 28: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn) [continued]

Guarantees, payment undertakings arising from banking activities

Payment undertaking is a promise by the Bank to assume responsibility for the debt obligation of a borrower if that borrower defaults until a determined amount and until a determined date, in case of fulfilling conditions, without checking the underlying transactions. The guarantee's liability is joint and primary with the principal, in case of payment undertaking, while the Bank assumes the obligation derived from guarantee independently by the conditions established by the Bank.

A guarantee is most typically required when the ability of the primary obligor or principal to perform its obligations under a contract is in question, or when there is some public or private interest which requires protection from the consequences of the principal's default or delinquency. A contract of guarantee is subject to the statute of frauds (or its equivalent local laws) and is only enforceable if recorded in writing and signed by the surety and the principal.

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

Contingent liabilities related to OTP Mortgage Bank Ltd.

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[1]

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

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

[1] Until the end of 2014 Board of Directors

NOTE 29: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF mn) [continued]

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

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

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

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

	Share purchasing at a discounted price												Price of remuneration exchanged to share	Share purchasing at a discounted price		Price of remuneration exchanged to share
Year	Exercise price	Maximum earnings per share	Exercise price	Maximum earnings per share	Exercise price	Maximum earnings per share	Exercise price	Maximum earnings per share	Exercise price	Maximum earnings per share	Exercise price	Maximum earnings per share		Exercise price	Maximum earnings per share	
	HUF per share															
	for the year 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**		
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

NOTE 29: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF mn) [continued]

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 31December 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 starting in 2017	30,033	483,987	453,954	9,276	-

Based on parameters accepted by Supervisory Board, relating to the year **2014** effective pieces are follows as at 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 starting in 2017	11,137	189,778	178,641	9,243	-
Share-purchasing period starting in 2018	237,013	-	-	-	-

NOTE 29: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF mn) [continued]

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 starting in 2017	26,065	299,758	273,693	9,260	-
Remuneration exchanged to share applying 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**

NOTE 30: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]

c) *Interests received by the Bank*[1]

	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*[2]

	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**

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**

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

NOTE 30: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]

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 (in HUF mn):

	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

NOTE 30: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]

j) Related party transactions with key management [continued]

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

	2017	**2016**
Members of Board of Directors and their close family members	14	18
Members of Supervisory Board	-	2
Executive	5	-
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 Bonus Gold is as follows (in HUF mn):

	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 (in HUF mn):

	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 (in HUF mn):

	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**

NOTE 30: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]

j) Related party transactions with key management [continued]

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

	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 (in HUF mn):

	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

	2017	2016 (Restated)	2015 (Restated)
In the percentage of the total assets			
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.

NOTE 33: MATURITY ANALYSIS OF LIABILITIES AND LIQUIDITY RISK (in HUF mn) [continued]

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

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

NOTE 33: MATURITY ANALYSIS OF LIABILITIES AND LIQUIDITY RISK (in HUF mn) [continued]

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[1]	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[1]	110,358
Other liabilities[1]	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**

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

NOTE 33: MATURITY ANALYSIS OF LIABILITIES AND LIQUIDITY RISK (in HUF mn) [continued]

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[1]	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[1]	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**

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

As at 31 December 2016

	USD	EUR	CHF	Others	Total
Assets[1]	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[2]	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.

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

NOTE 35: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

As at 31 December 2017	within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest - bearing		Total		
ASSETS	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	**204,673**	**91,346**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**93,451**	**9,654**	**298,124**	**101,000**	**399,124**
fixed interest	204,673	91,346	-	-	-	-	-	-	-	-	-	-	204,673	91,346	**296,019**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	93,451	9,654	93,451	9,654	**103,105**
Placements with other banks, net of allowance for placement losses	**313,305**	**79,223**	**421,698**	**20,073**	**3,197**	**16,056**	**25,181**	**-**	**96,535**	**2,830**	**-**	**-**	**859,916**	**118,182**	**978,098**
fixed interest	40,097	58,735	1,063	3,318	3,197	3,679	25,181	-	96,535	2,830	-	-	166,073	68,562	**234,635**
variable interest	273,208	20,488	420,635	16,755	-	12,377	-	-	-	-	-	-	693,843	49,620	**743,463**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Securities held for trading	**11,657**	**194**	**33,664**	**6,342**	**66,722**	**15,058**	**43,938**	**9,201**	**1,480**	**5,871**	**11,694**	**894**	**169,155**	**37,560**	**206,715**
fixed interest	11,657	-	33,040	6,342	50,384	15,058	43,938	9,201	1,480	5,871	-	-	140,499	36,472	**176,971**
variable interest	-	194	624	-	16,338	-	-	-	-	-	-	-	16,962	194	**17,156**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	11,694	894	11,694	894	**12,588**
Securities 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**

NOTE 35: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

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

NOTE 35: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

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		
ASSETS	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	**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**

NOTE 35: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

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		
LIABILITIES	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	Total
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	**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**

NOTE 35: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

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		
ASSETS	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	**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**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
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**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
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**

NOTE 35: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

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		
LIABILITIES	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**Total**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	**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 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
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
	number of shares	
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[1]	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**

[1] 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.

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

a) Fair value of financial assets and liabilities

	31 December 2017		31 December 2016 (Restated)		31 December 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[49]	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**

[49] 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.

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

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	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
1) Cash-flow hedges	-	-	-
2) Fair value hedges	IRS	HUF (10,540) million	Interest rate
3) Fair value hedges	CCIRS	HUF 3,509 million	Interest rate / Foreign currency

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
1) Cash-flow hedges	-	-	-
2) Fair value hedges	IRS	HUF (13,720) million	Interest rate
3) Fair value hedges	CCIRS	HUF 172 million	Interest rate / Foreign currency

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

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

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

d) Fair value hedges [continued]

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

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

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**[1]
Negative fair value of derivative financial instruments classified as held for trading	79,545	*188*	*79,357*	-
Negative fair value of derivative financial instruments designated as fair value hedge	17,179	-	17,179	-
Financial liabilities measured at fair value total	**96,724**	**188**	**96,536**	**-**

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**[1]
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**	**-**

[1] The portfolio includes Visa Inc. "C" preferential shares.

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

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**[51]
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.

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.

[51] The portfolio includes Visa Inc. "C" preferential shares.

NOTE 41: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE BANK'S FINANCIALS (in HUF mn)

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 4.0% 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.

NOTE 41: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE BANK'S FINANCIALS (in HUF mn) [continued]

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 2.0 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.

PROPOSAL FOR THE USE OF AFTER-TAX PROFIT OF THE PARENT COMPANY AND FOR DIVIDEND PAYMENT

A PART OF THE PROPOSAL OF RESOLUTION

The Annual General Meeting determines the statement of financial position for the year ended 2017 with total assets of HUF 7,771,882 million and with net profit for the period of HUF 251,550 million. The net profit for the period is allocated as follows: the general reserve must be increased by HUF 25.155 million, and HUF 61,320 million shall be paid as dividend from the net profit for the period.

The dividend per share is HUF 219, compared to the face value of shares it's 219%. The actual rate of dividend paid to shareholders is calculated and paid based on the Articles of Association, so the Company distributes the dividends for its own shares among the shareholders who are entitled for dividends. The dividends shall be paid from 4 June 2018 in accordance with the policy determined in the Articles of Association.

(The text above is part of the proposal of Annual General Meeting resolution)

FINANCIAL STATEMENTS ON 2017

IFRS (CONSOLIDATED)

OTP BANK PLC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017
(in HUF mn)

	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

OTP BANK Nyrt.

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Dr. Sándor Csányi
Chairman and Chief Executive Officer

elnök-vezérigazgató

OTP BANK PLC.
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2017
(in HUF mn)

	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**

OTP BANK PLC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017
(in HUF mn)

	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

OTP BANK PLC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017
(in HUF mn)

	Note	Share capital	Capital reserve	Share-based payment reserve	Retained earnings and reserves[52]	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**

[52] See details in Note 21.

OTP BANK PLC.
CONSOLIDATED STATEMENT OF CASH-FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017
(in HUF mn)

OPERATING ACTIVITIES	Note	2017	2016 (Restated)
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)

OTP BANK PLC.
CONSOLIDATED STATEMENT OF CASH-FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017
(in HUF mn)
[continued]

	Note	2017	2016 (Restated)
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**

OTP BANK PLC.
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.

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

1.2. Basis of Accounting [continued]

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

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

1.2. Basis of Accounting [continued]

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

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 statements 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.

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

1.2. Basis of Accounting [continued]

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

Impairment [continued]

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)**	**-**

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

1.2. Basis of Accounting [continued]

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

- **IFRS 14 “Regulatory Deferral Accounts”** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 17 “Insurance Contracts”** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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.

[1] First In First Out

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

2.6.2. Derivative financial instruments

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

2.6.2. Derivative financial instruments [continued]

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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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 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.

[1] First In First Out

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

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 pre-determined price, they remain on Statement of Financial Position and the consideration received is recorded in Other liabilities or Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks. Conversely, debt or equity securities purchased under a commitment to resell are not recognized in the Statement of Financial Position and the consideration paid is recorded either in Placements with other banks or Deposits from customers. Interest is accrued based on effective interest method evenly over the life of the repurchase agreement.
In the case of security lending transactions the Group doesn't recognize or derecognize the securities because believes that the transferor retains substantially all the risks and rewards of the ownership of the securities. Only a financial liability or financial receivable is recognized for the consideration amount.

2.13. Associates and other investments

Companies where the Bank has the ability to exercise significant influence are accounted for using the equity method. However, certain associated companies in which the Bank holds a significant interest have not been accounted for in accordance with the equity method because the effect of using the equity method to account for such companies is not material to the Consolidated Financial Statements as a whole.
Unconsolidated subsidiaries and associated companies that were not accounted for using the equity method and other investments where the Bank does not hold a significant interest are recorded according to 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.14. Property and equipment, Intangible assets

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

Depreciation and amortization are computed 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.16. Leases [continued]

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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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.

In HUF million

Comparative figures and restatement	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 s tatements 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:

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

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[1]	**(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**

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

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

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

	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%

	2017	2016
Average interest rates on placements with other banks	0.98%	1.25%

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

	2017	2016 (Restated)	2015 (Restated)
Securities held for trading			
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**

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

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[1] 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%**

	2017	2016
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%

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

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

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

	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**

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

	2017	2016
Securities available-for-sale		
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**

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

	2017	2016
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%

	2017	2016
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**

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

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%**

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

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%

	2017	2016
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[1]	(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**

[1] See details in Note 2.11.

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**

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

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

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

Depreciation and Amortization	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Total
Balance as at 1 January	**138,185**	**54,026**	**126,138**	**-**	**318,349**
Charge for the 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:

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

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

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

Carrying value	
Balance as at 1 January	**104,282**
Balance as at 31 December	**100,976**

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

For the year ended 31 December 2017 [continued]

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

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

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 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.

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

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

For the year ended 31 December 2016

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

Intangible assets	Self-developed	Other	Total
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**

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

For the year ended 31 December 2016 [continued]

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

List of units	HUF mn
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[1]	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

Gross value	Investment property	Investment property subject to operating lease	Total
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**

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%

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

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

For the year ended 31 December 2017 [continued]

Depreciation and amortization	**Investment property**	**Investment property subject to operating lease**	**Total**
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	**Investment property**	**Investment property subject to operating lease**	**Total**
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	**Investment property**	**Investment property subject to operating lease**	**Total**
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	**Investment property**	**Investment property subject to operating lease**	**Total**
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**

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

For the year ended 31 December 2016

Gross value	**Investment property**	**Investment property subject to operating lease**	**Total**
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%

Depreciation and amortization	**Investment property**	**Investment property subject to operating lease**	**Total**
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	**Investment property**	**Investment property subject to operating lease**	**Total**
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	**Investment property**	**Investment property subject to operating lease**	**Total**
Balance as at 1 January	**25,455**	**4,864**	**30,319**
Balance as at 31 December	**24,748**	**4,698**	**29,446**

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

For the year ended 31 December 2016 [continued]

	Investment property	Investment property subject to operating lease	Total
Fair values	27,806	5,641	33,447

Income and expenses	Investment property	Investment property subject to operating lease	Total
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[1] (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**

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

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

	2017	2016 (Restated)	2015 (Restated)
Provision for impairment on other assets[1]	(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[2]	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**

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[3]	**472,068**	**543,775**

[1] 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.

[2] See Note 27.

[3] 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 14: AMOUNTS DUE TO BANKS, THE HUNGARIAN GOVERNMENT, DEPOSITS FROM THE NATIONAL BANKS AND OTHER BANKS (in HUF mn) [continued]

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

	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%

	2017	2016
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%

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%

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

	2017	2016
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%

	2017	2016
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%

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

Issued securities denominated in HUF as at 31 December 2017 (in HUF mn)

	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	
	Subtotal			**85,866**			

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

Issued securities denominated in HUF as at 31 December 2017 (in HUF mn) [continued]

	Name	Date of issue	Maturity	Nominal value (in HUF mn)	Interest conditions (in % p.a.)		Hedged
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	15/02/2017	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			**151,792**			
	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 (in HUF mn)

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

[1] 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 16: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]

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.

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[1] (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[2]	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**

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

[2] See Note 27.

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

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

	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%

	2017	2016
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[1] (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.

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

[1] See more details about the Consolidated statement of Comprehensive Income on page 4.

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

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

Change in number of shares:

	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**

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

	2017	2016
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[1]	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**

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

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

Other operating income	2017	2016
Negative goodwill due to acquisition	32,221	-
Gains on sale of receivables	6,889	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[1]	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**

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[2]	**49,492**	**44,427**

[1] See details in Note 9.

[2] See details in Note 11.

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

	2017	2016
Other administrative expenses		
Taxes, other than income tax [1]	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**

[1] 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.

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

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

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

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.

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

28.1. Credit risk [continued]

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.

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan types and by DPD categories [continued]

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**

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan types and by DPD categories [continued]

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.

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan types and by DPD categories [continued]

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.

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan types and by DPD categories [continued]

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 as at 31 December 2017 and 2016 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.

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan types and by DPD categories [continued]

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[1]	55,158	57	516	75
Total[2]	**8,188,720**	**738,863**	**7,038,240**	**944,368**

[1] 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.
[2] Without the amount of bill of exchange and with accrued interest receivable.

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan types and by DPD categories [continued]

Loan portfolio by countries [continued]

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.

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.

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

28.1. Credit risk [continued]

28.1.3. Restructured loans

	2017		2016	
	Gross portfolio	Allowance	Gross portfolio	Allowance
Loans to medium and large corporates[1]	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.

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.

[1] They include project and syndicated loans.

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

28.1. Credit risk [continued]

28.1.4. Financial instruments by rating categories[1]

Securities held for trading as at 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**

[1] Moody's ratings

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

28.1. Credit risk [continued]

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

Securities 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**

[1] Moody's ratings

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

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 (in HUF mn):

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

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

28.2. Market risk [continued]

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	
	2017	2016
	In HUF billion	In HUF billion
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.

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

28.2 Market risk [continued]

28.2.3. Interest rate sensitivity analysis [continued]

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

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

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

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.

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

28.3. Capital management [continued]

Capital adequacy [continued]

Calculation on IFRS basis	**2017**	**2016**
Core capital (Tier 1) = Common Equity Tier 1 (CET 1)	***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 Tier 1 (AT1)	-	-
Supplementary capital (Tier 2)	***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]	**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**
CET 1 ratio	12.7%	15.8%
Tier 1 ratio	12.7%	15.8%
Capital adequacy ratio	**14.6%**	**18.2%**

Basel III

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

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

[1] The consolidated regulatory capital of the Group 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.

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

Guarantees, payment undertakings arising from banking activities

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

Derivatives

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

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

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

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

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

During implementation of the Remuneration Policy of the Group appeared that in case of certain foreign subsidiaries it is not possible to ensure the originally determined share-based payment because of legal reasons – incompatible with relevant EU-directives –, therefore a decision was made to cancel the share-based payment in affected countries.
The quantity of usable shares for individuals calculated for settlement of share-based payment shall be determined as the ratio of the amount of share-based payment and share price determined by Supervisory Board[1]

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

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

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

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

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

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:

[1] Until the end of 2014 Board of Directors

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

	Share purchasing at a discounted price													Share purchasing at a discounted price		
Year	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
	(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		
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

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

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	-	-	-	-

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

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**

	2017	2016
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

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

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.

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

a) Purchase and consolidation of subsidiaries [continued]

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	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 Company Ltd. (Malta)	100.00%	100.00%	refinancing activities
OTP Factoring Ltd.	100.00%	100.00%	work-out
OTP Mortgage Bank Ltd.	100.00%	100.00%	mortgage lending
OTP Real Estate Ltd.	100.00%	100.00%	real estate management and development
Merkantil Bank Ltd.	100.00%	100.00%	finance lease
Merkantil Car Ltd.	100.00%	100.00%	finance lease
OTP Building Society Ltd.	100.00%	100.00%	housing savings and loan
OTP Fund Management Ltd.	100.00%	100.00%	fund management
R.E. Four d.o.o. (Serbia)	100.00%	100.00%	real estate management
Crnogorska komercijalna banka a.d. (Montenegro)	100.00%	100.00%	commercial banking services
OTP Financing Netherlands B.V. (the Netherlands)	100.00%	100.00%	refinancing activities
OTP Holding Ltd. (Cyprus)	100.00%	100.00%	refinancing activities
OTP Financing Cyprus Ltd. (Cyprus)	100.00%	100.00%	refinancing activities
Bank Center No. 1. Ltd.	100.00%	100.00%	real estate lease
Inga Kettő Ltd.	100.00%	100.00%	property management
OTP Funds Servicing and Consulting Ltd.	100.00%	100.00%	fund services
OTP Real Estate Leasing Ltd. (previously OTP Flat Lease Ltd.)	100.00%	100.00%	real estate leasing
OTP Life Annuity Ltd.	100.00%	100.00%	life annuity services

Significant associates and joint ventures[1]

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

[1] Based on unaudited financial statements.

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

Significant associates and joint ventures[1] [continued]

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

	2017	**2016 (Restated)**	**2015 (Restated)**
In the percentage of the total assets			
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.

[1] 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.

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

As at 31 December 2017	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Banks	1,198,257	22	-	-	293	1,198,572
Placements with other banks, net of allowance for placement losses	353,289	57,534	67,814	-	1,183	479,820
Securities 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[1]	132,921	40,143	43,589	4,027	21,290	241,970
TOTAL ASSETS	**2,862,390**	**2,181,297**	**4,364,428**	**3,578,516**	**458,161**	**13,444,792**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	146,667	47,467	124,910	153,089	-	472,133
Deposits from customers	8,864,259	1,032,706	250,209	91,438	-	10,238,612
Liabilities from issued securities	8,758	13,234	223,785	2,092	-	247,869
Other liabilities[1]	363,012	28,852	21,500	13,172	3,579	430,115
Subordinated bonds and loans	325	2	-	75,701	-	76,028
TOTAL LIABILITIES	**9,383,021**	**1,122,261**	**620,404**	**335,492**	**3,579**	**11,464,757**
NET POSITION	**(6,520,631)**	**1,059,036**	**3,744,024**	**3,243,024**	**454,582**	**1,980,035**
Receivables from derivative financial instruments 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**

[1] Without derivative financial instruments.

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

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[1]	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[1]	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**

[1] 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[1]	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[1]	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.

[1] Off-balance sheet assets and liabilities, net category contains derivative instruments.

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

As at 31 December 2017

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
ASSETS	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
Cash, amounts due from banks and balances with the National Banks	**205,408**	**435,363**	**2,977**	**290**	**-**	**22**	**-**	**-**	**-**	**-**	**95,079**	**458,906**	**303,464**	**894,581**	**1,198,045**
fixed rate	203,141	363,723	2,972	290	-	22	-	-	-	-	-	-	206,113	364,035	570,148
variable rate	2,267	71,640	5	-	-	-	-	-	-	-	-	-	2,272	71,640	73,912
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	95,079	458,906	95,079	458,906	553,985
Placements with other banks, net of allowance for placements losses	**70,716**	**263,359**	**15,698**	**21,517**	**3,197**	**23,258**	**14,214**	**-**	**202**	**3,896**	**17**	**46,106**	**104,044**	**358,136**	**462,180**
fixed rate	14,098	197,489	1,063	10,969	3,197	13,983	14,214	-	202	3,188	-	-	32,774	225,629	258,403
variable rate	56,618	65,870	14,635	10,548	-	9,275	-	-	-	708	-	-	71,253	86,401	157,654
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	17	46,106	17	46,106	46,123
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

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

As at 31 December 2017 [continued]

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

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

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

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

As at 31 December 2016 (Restated) [continued]

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

	2017	2016
	Number of shares	
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[1]	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**

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

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**

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.

NOTE 41: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn)

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[1]	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	136,684	136,684	132,095	132,095
Financial assets total	**12,624,486**	**13,213,713**	**10,696,199**	**11,441,054**
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**	**11,617,189**	**9,769,092**	**9,840,867**

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

NOTE 41: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

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**

NOTE 41: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Hedge accounting

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

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

As at 31 December 2017

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

As at 31 December 2016

Types of the hedges	Hedging instrument	Fair value of the hedging instrument	The nature of the risk being hedged
1) Fair value hedges	IRS	HUF (13,088) million	Interest rate
2) Fair value hedges	CCIRS	HUF 972 million	Interest rate / Foreign exchange
3) Net investment hedge in foreign operations[1]	CCIRS and issued securities	HUF (577) million	Foreign exchange

d) Fair value hedges

4. 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)

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

NOTE 41: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

d) Fair value hedges [continued]

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

NOTE 41: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

d) Fair value hedges [continued]

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

NOTE 41: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

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[1]
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 (Restated)	**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[1]
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**

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

NOTE 41: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

e) Fair value levels [continued]

Movements in Level 3 financial instruments measured at fair value

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

Goodwill / investment impairment and their tax saving effect:

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:

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

As at 31 December 2017

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

( ) used at: provisions, impairment and expenses

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

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

As at 31 December 2016

Main components of the Consolidated Statement of Profit or Loss in HUF million	OTP Group - consolidated - in the Consolidated Statement of Profit or Loss - structure of accounting reports	Adjustements on the accounting in Recognized Income	OTP Group - consolidated - in the Consolidated Statement of Profit or Loss - structure of management reports	OTP CORE (Hungary)	Foreign banks subtotal (without adjustments)	JSC "OTP Bank" (Russia)	OTP Bank JSC (Ukraine)	DSK Bank EAD (Bulgaria)	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
	a	b	1=a+b 1= 2+3+12+16+17	2	3=4+…+11	4	5	6	7	8	9	10	11	12=13+14+15	13	14	15	16	17
Net profit for the year	**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**	**1,653**	**39**	**3,782**	**(2,224)**	**(1,848)**	**12,997**	**3,967**	**6,723**	**2,307**	**(5,868)**	**(1,766)**
Profit before income tax	**236,395**	**8,376**	**244,771**	**151,866**	**86,165**	**19,648**	**11,679**	**52,380**	**2,136**	**5**	**4,647**	**(2,480)**	**(1,850)**	**15,199**	**4,264**	**8,114**	**2,821**	**(6,615)**	**(1,844)**
Adjusted operating profit	**329,868**	**6,032**	**335,900**	**143,672**	**179,108**	**54,537**	**22,217**	**70,111**	**8,543**	**697**	**13,538**	**6,780**	**2,685**	**18,745**	**8,550**	**7,894**	**2,301**	**(4,318)**	**(1,307)**
Adjusted total income	785,966	(49,651)	736,315	354,671	349,556	106,031	37,304	112,502	26,643	7,720	31,442	17,892	10,022	52,469	17,038	10,842	24,589	(4,015)	(16,366)
Adjusted net interest income	519,729	2,221	521,950	235,871	272,618	92,025	26,478	84,023	20,315	5,769	22,800	14,257	6,951	23,936	19,804	33	4,099	(4,015)	(6,460)
Adjusted net profit from fees and commissions	222,991	(47,025)	175,966	100,214	64,636	13,749	8,746	26,034	3,230	1,653	5,330	3,272	2,622	11,325	(491)	10,796	1,020	0	(209)
Adjusted other net non-interest income	43,246	(4,847)	38,399	18,586	12,302	257	2,080	2,445	3,098	298	3,312	363	449	17,208	(2,275)	13	19,470	0	(9,697)
Adjusted other administrative expenses	(456,098)	55,683	(400,415)	(210,999)	(170,448)	(51,494)	(15,087)	(42,391)	(18,100)	(7,023)	(17,904)	(11,112)	(7,337)	(33,724)	(8,488)	(2,948)	(22,288)	(303)	15,059
Total risk costs	**(93,473)**	**254**	**(93,219)**	**6,104**	**(92,943)**	**(34,889)**	**(10,538)**	**(17,731)**	**(6,407)**	**(692)**	**(8,891)**	**(9,260)**	**(4,535)**	**(3,546)**	**(4,286)**	**220**	**520**	**(2,297)**	**(537)**
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)	(5,541)	(890)	(5,331)	(8,987)	(4,289)	(3,010)	(3,088)	0	78	0	(345)
Other provision (adjustment)	0	(19,995)	(19,995)	(7,932)	(9,038)	(868)	1,328	(4,751)	(866)	198	(3,560)	(273)	(246)	(536)	(1,198)	220	442	(2,297)	(192)
Total other adjustments (one-off items)[1]	0	2,090	**2,090**	2,090	**0**	0	0	0	0	0	0	0	0	**0**	0	0	0	0	0
Income tax	(33,943)	(9,652)	**(43,595)**	(29,676)	**(12,542)**	(5,012)	(1,477)	(4,997)	(483)	34	(865)	256	2	**(2,202)**	(297)	(1,391)	(514)	747	78
Total Assets (restated)	**11,209,041**	**0**	**11,209,041**	**7,148,667**	**4,820,637**	**648,807**	**307,117**	**1,852,901**	**588,188**	**123,279**	**649,063**	**453,720**	**197,562**	**727,025**	**435,283**	**19,040**	**272,702**	**1,370,966**	**(2,858,254)**
Total Liabilities (restated)	**9,788,392**	**0**	**9,788,392**	**5,836,208**	**4,224,484**	**518,032**	**282,874**	**1,605,634**	**545,678**	**94,474**	**575,037**	**426,381**	**176,374**	**544,037**	**405,548**	**2,973**	**135,516**	**657,018**	**(1,473,355)**

( ) used at: provisions, impairment and expenses

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

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

6) 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 HUF mn)

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.

NOTE 45: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE GROUP'S FINANCIALS (in HUF mn) [continued]

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 4.0% 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.

NOTE 45: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE GROUP'S FINANCIALS (in HUF mn) [continued]

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 2.0 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.

NOTE 45: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE GROUP'S FINANCIALS (in HUF mn) [continued]

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.

REPORT OF THE SUPERVISORY BOARD ON THE ANNUAL FINANCIAL STATEMENTS FOR 2017 AND ITS PROPOSAL REGARDING THE USE OF AFTER-TAX PROFIT

In 2017, the Supervisory Board conducted its activity and performed its duties in compliance with the procedures regulated in Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises, as well as in Act V of 2013 on the Civil Code and in its own procedural rules.

The Supervisory Board continued to perform its **controlling function** in 2017, protecting the assets of the company and the interests of the shareholders.

As a part of this, at its nine meetings held last year – in addition to its approved work schedule – it requested reports from the executive management, heard briefings and passed resolutions. At meetings of the Bank's Board of Directors the Supervisory Board was represented by its chairman.

The Supervisory Board exercised control over the management of the Company in the following manner:

- *based on the financial statements, it continuously monitored*
  - the development of results, based on the Bank's interim executive reports,
  - the content of the Bank's interim financial statements approved by the auditor,
  - the development of the quality of the Bank Group's portfolio,
  - compliance with the provisions of the Act on Credit Institutions and Financial Enterprises,
  - the activity of the auditing organisations involved in the unified internal audit system,
  - the findings set out in the audit reports of the regular reporting service relating to the customer's cash and securities coverage, that are assigned by the relevant paragraphs of the Investment Services Act (Bszt.) to the sphere of duties of internal audit,
  - the implementation of the tasks set out in action plans compiled following the audits of the MNB,
  - the fulfilment of the resolutions passed by the Supervisory Board.

- *it heard reports and briefings*
  - on OTP Bank Plc.'s business activity in 2016,
  - on OTP Bank Plc.'s business results for 2016,
  - as part of the auditor's report, on the 2016 financial report of the parent company prepared in accordance with the accounting laws and other domestic financial reporting rules (balance sheet, profit and loss account, cash flow statement, notes to the financial statements),
  - on the proposal for the use of after-tax profit of the parent company and dividend payments;
  - as part of the auditor's report, on the 2016 IFRS-based consolidated financial reports of the Bank (financial situation report, profit and loss account, comprehensive income statement, cash flow statement, statement on changes in equity, explanatory notes);
  - on the results of the audit of the 2016 financial reports received from the auditor,
  - as part of the audit report, on the Bank's stand-alone report prepared in accordance with International Financial Reporting Standards (IFRS) in respect of the year 2016,
  - in relation to the material data of the 2016 financial report that is to be published,
  - on the General Meeting's authorisation with regard to the acquisition of treasury shares,
  - on the implementation and annual review of the remuneration policy of OTP Bank Plc. and the Group in 2016,
  - on the findings of the assessment of compliance with the requirements prescribed for the members of OTP Bank Plc.'s management bodies and for the activities of these bodies, as well as for the executive officers and key function holders of the Bank, in the 2016 business year,

- on the review of the operation of the Remuneration Policy of OTP Bank Plc. and the Bank Group carried out by internal audit in 2017 (with respect to 2016)
- on decisions relating to the implementation of the Remuneration Policy,
- on decisions relating to the implementation of the remuneration policy of the OTP Bank ESOP Entity,
- on the review of the effectiveness of public disclosure processes,
- on the provisions of the Conflict of Interest Regulations,
- on the Personal Transactions regulation,
- on the basic regulations defining the activity of the Internal Audit Directorate that is under its professional supervision,
- on the group-level operation of the Unified Internal Audit System and the improvement of the system, and
- on the operation of the Internal Audit Directorate in accordance with Article 154, section (12) of the Credit Institutions Act, and on
- on the findings related to the management of complaints, on the consumer protection audit conducted by the MNB, as well as on the briefing on customer complaints received by the foreign subsidiaries, and
- on the medium-term IT strategy convergence of OTP Bank Plc Board on agile bank projects,
- on contracts for non-prohibited non-audit services concluded with the auditor,
- on the 2018 business, financial and strategic plan of OTP Bank Plc. and the Bank Group, and
- on other current issues.

➢ *approved*

- the remuneration guidelines of OTP Bank Plc.,
- the basic principles of the 2017 incentives system of OTP Bank Plc. and the subsidiary members of the Bank Group, and the main performance evaluation criteria, in respect of managers that are subject to the remuneration policy,
- in respect of the 2016 share-based portion of the performance remuneration, the conditions applicable to the awarding of shares,
- the amendment of regulations pertaining to the Remuneration Policy,
- the amendment of the remuneration policy of the OTP Bank ESOP Entity,
- the conditions of the performance-based remuneration of the year 2016, the settlement of the remuneration retained within the performance-based remuneration due in respect of 2015,
- the proposal regarding the modification and the submission to the General Meeting of OTP Bank Plc.'s Articles of Association,
- the report of the Supervisory Board on the annual financial statements of 2016 and the proposal regarding utilisation of the after-tax profit,
- the basic principles of the 2018 incentives system, the main performance evaluation criteria, and the indicators of the senior managers that are subject to the remuneration policy.

➢ *accepted*

- the proposal on the selection of the Company's auditor, the determination of the remuneration and the definition of the main elements of the contract to be concluded with the auditor,
- the proposal on the election of the members of OTP Bank Plc's Board of Directors, Supervisory Board and Audit Committee, and the proposal on the establishing of the remuneration of the members of these bodies,

- in relation to its tasks determined in its own rules of procedure, the annual report on risk management, internal control mechanisms and the operation of corporate governance functions, in full knowledge of the preliminary opinion of the Audit Committee.
- the contents of the report on the compliance and security situation of OTP Bank Plc. and the foreign subsidiary banks,

➢ *agreed with*

- the contents of the Corporate Governance Report for 2016 and its submission to the General Meeting,

➢ *contributed to*

- the loan applications of customers and customer groups approved by the Board of Directors of OTP Bank Plc. and to the setting of customer group limits.

➢ *obtained information*

- on the Supervisory measures taken in respect of the Bank.
  In this context it determined that in the course of 2017, the National Bank of Hungary had, in relation to individual customer complaints, imposed fines in the total amount of HUF 18,300,000 on the Bank due to a breach of the statutory provisions on the prohibition of unfair commercial practices towards consumers and to regulatory deficiencies revealed during its targeted audit.

The Supervisory Board performed its **governance role** in accordance with the provisions of the Credit Institutions Act, through the audits performed by the internal audit unit under its professional supervision (Internal Audit Directorate) and through the audits that it, itself, performed.

In accordance with the applicable statutory provisions and its Rules of Procedure, which are in harmony with such provisions, the Supervisory Board took steps to ensure the availability of auditing bodies capable of comprehensive and effective operation at OTP Bank Plc. and at the credit institutions, financial enterprises and investment enterprises that are subject to consolidated supervision.

As a part of its oversight of the internal auditing units, the Supervisory Board

- commented on, and subsequently approved, the **annual audit plan** of the Internal Audit Directorate and the Bank Group members subject to consolidated supervision, which was elaborated on the basis of risk analyses. In addition to the audits prescribed as compulsory in the statutory provisions and the Supervisory Authority's Recommendations, it designated the topics that were examined in the context of a group-level audit, such as audits focusing on the compliance of agricultural enterprise lending activity, IT Incident Management, as well as the appropriate application of the Group Recovery Plan and of the subsidiary bank recovery indicators.

  Based on the audit plan for 2017 and other, unscheduled tasks, the Internal Audit Directorate **completed 173 audits** and **commenced 22 audits** during the year. Following the completed audits, it drew up **1,470** accepted **recommendations**.

- discussed the reports prepared by internal audit and monitored the execution of the necessary measures. Based on the findings of the audits it accepted recommendations and proposals, and prescribed further obligations to provide information.

Through the bank group-level quarterly, annual and stand-alone reports, the internal audit unit reported, to the Supervisory Board of OTP – as well as to the Executive Bodies of the Bank – on the internal auditing activities performed within the group, the findings of group-level theme audits of key importance, completion of the tasks undertaken in action plans drawn up by the audited departments, as well as extraordinary events and findings entailing a high degree of risk that came to light in the course of internal audit activities and which are also of significance at group level.

Prior to the ordinary annual General Meeting of 2018, the Supervisory Board, in fulfilment of its statutory obligation, **reviewed** all the material business policy reports on the agenda of the General Meeting, as well as all the proposals relating to matters that fall within the exclusive competence of the company's supreme body.

The Supervisory Board studied the content of the audited **annual financial statements** and **consolidated annual financial statements**, and heard the **briefings of the auditor**.

The Supervisory Board commented on and approved the **Corporate Governance Report** (for 2017) prior to its proposal to the General Meeting.

The Supervisory Board – based on prior agreement with the Board of Directors – **makes a proposal at the 2018 General Meeting** regarding the identity and the remuneration of the **auditor** to be selected.

The Supervisory Board evaluated **the performance of the senior officers during the business year** and made a proposal to the 2018 Annual General Meeting on whether to grant the senior officers discharge from liability.

Prior to the 2018 Annual General Meeting, the Supervisory Board ascertains that the Bank has, in compliance with its statutory obligations, **published** its material data, its declaration on remuneration, and the information that is required by law to be made public.

The Supervisory Board has, in this proposal, prepared its report on **the 2017 annual financial statements** and the proposal for the **use of the after-tax profit,** and it will submit it to the 2018 Annual General Meeting.

Based on the documents made available to it in respect of the 2017 business year, the Supervisory Board has concluded that OTP Bank Plc. prepares its annual report in line with the provisions of Act C of 2000 on Accounting effective from 1 January 2017, exclusively in compliance with the rules pertaining to financial statements regulated by the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and accepted by the European Union.

The Bank accounted for impairment and set aside provisions in accordance with the International Financial Reporting Standards (IFRS standards) accepted by the European Union as well as the Bank's Accounting Policy, by applying the regulations, agreed with the auditor, on valuation as set out in the International Financial Reporting Standards (IFRS).

Based on the documents made available to it in respect of the **consolidated annual financial statements** of OTP Bank Plc., the Supervisory Board has concluded that the Bank prepared the latter in accordance with the provisions of Act C of 2000 on Accounting and with international financial reporting standards (IFRS) as accepted by the European Union.

The Supervisory Board of OTP Bank Plc. judges that in the course of OTP Bank Plc.'s activity throughout the year, the principles of legality and respect for shareholder interests were upheld.

The Supervisory Board of OTP Bank Plc., in line with the contents of the auditor’s report, and having accepted

- the non-consolidated annual financial statements on the 2017 business year prepared in accordance with International Financial Reporting Standards

  with a ***balance sheet total of HUF 7,771,882 million,*** *and*

- the consolidated annual financial statements on the 2017 business year prepared in accordance with International Financial Reporting Standards

  with a ***balance sheet total of HUF 13,190,228 million,*** *and*

- *the non-consolidated* ***net profit*** *in accordance with International Financial Reporting Standards*

  with ***an amount of HUF 251,550 million****, and*

- the Board of Directors’ **report on business operations**,

hereby recommends the above for approval by the Company’s General Meeting.

The Supervisory Board agrees with the proposal of the Board of Directors that **dividend in an amount of HUF 219** per share be paid in accordance with the Company’s Articles of Association.

Audit Committee's Report
on the annual financial statements for 2017
and proposal for the use of
the after-tax profit

In 2017 the Audit Committee (AC) conducted its activity and performed its duties in compliance with the procedures regulated in Act V of 2013 on the Civil Code, as well as in its own procedural rules accepted by the Bank's Supervisory Board.

In support of the work of the Bank's Audit Committee and Supervisory Board, and as part of a close working relationship between the various Committees, it collaborated in the monitoring of the financial reporting system, in the selection of the auditor and in maintaining the expected and appropriate cooperation with the auditor.

The Audit Committee, in addition to what was discussed at the meetings of the Supervisory Board,

- *heard reports*
  - as part of the auditor's report, on the 2016 financial report of the parent company prepared in accordance with the accounting laws and other domestic financial reporting rules (balance sheet, profit and loss account, cash flow statement, notes to the financial statements),
  - on the proposal for the use of after-tax profit of the parent company and dividend payments;
  - as part of the auditor's report, on the 2016 IFRS-based consolidated financial reports of the Bank (financial situation report, profit and loss account, comprehensive income statement, cash flow statement, statement on changes in equity, explanatory notes);
  - on the results of the audit of the 2016 financial reports received from the auditor,
  - as part of the audit report, on the Bank's stand-alone report prepared in accordance with International Financial Reporting Standards (IFRS) in respect of the year 2016,
  - on the material data of the 2016 financial report that is to be published.

  It has agreed with the contents of the reports, and proposed that these be presented to the General Meeting.

- *monitored*
  - in the interim financial statements approved by the auditor, changes in the results, as well as the contents of the interim balance sheet and the independent auditor's reports.

- *received a briefing*
  - on the 2017 auditing schedules of the Internal Audit Directorate,

- *commented on*
  - the content of the report entitled "Annual report on risk management, internal control mechanisms and the operation of corporate governance functions", to be proposed to the Supervisory Board.

- *commented on, and accepted,*
  - the proposal on the selection of the Company's auditor, the determination of the remuneration and the definition of the main elements of the contract to be concluded with the auditor.

- *approved*
  - The report of the Audit Committee on the 2016 annual financial reports and the proposal regarding the use of the after-tax profit.

Prior to the General Meeting the Audit Committee examined and evaluated the audited annual financial statements and the consolidated annual financial statements featuring as items on the agenda of the General Meeting, and heard the briefing of the auditor. It accepts the proposal on the selection of the Company's auditor.

Based on the documents made available to it in respect of the 2017 business year, the Audit Committee has concluded that OTP Bank Plc. prepared its annual financial statements in accordance with the provisions of Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises, Act C of 2000 on Accounting, and Government Decree 250/2000. (XII. 24.) on special provisions regarding the annual reporting and book-keeping obligation of credit institutions and financial enterprises.

The Bank accounted for impairment and set aside risk provisions in accordance with the requirements of the Act on Credit Institutions and Financial Enterprises, the government decree on the specific characteristics of the annual reporting and book-keeping obligations of credit institutions and financial enterprises, as well as the Bank's Accounting Policy, by applying the regulations, agreed with the auditor, on rating and on valuation, impairment and provisioning.

Based on the documents made available to it in respect of the **consolidated annual financial statements** of OTP Bank Plc., the Audit Committee has concluded that the Bank prepared the latter in accordance with the provisions of Act C of 2000 on Accounting and with international financial reporting standards (IFRS) as accepted by the European Union.

The Audit Committee, on the basis of the audit reports reviewed, in agreement with the auditor, is in the opinion that:

- the non-consolidated report on the 2017 business year, prepared in accordance with the International Financial Reporting Standards *with*

    a balance sheet total of HUF 7,771,882 million, *and*

- the consolidated annual report on the 2017 business year, prepared in accordance with the International Financial Reporting Standards with

    a balance sheet total of HUF 13,190,228 million**,** and

- the non-consolidated **net profit** in accordance with International Financial Reporting Standards

    with ***an amount of HUF 251,550 million***

can be submitted for approval to the Company's General Meeting.

The Audit Committee agrees on the proposal of the Board of Directors according to which **dividend in the amount of HUF 219 /share** is going to be paid on the burden of the profit reserve in accordance with the Company's Articles of Association.

RESULTS OF THE INDEPENDENT AUDITORS'S REPORT FOR THE YEAR ENDED 2017

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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.

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.

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

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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

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Deloitte.

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

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.

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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 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.

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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 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

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RESOLUTION PROPOSAL No. 1/2018

The Annual General Meeting accepts the Board of Directors' report on the Company's financial activity for the year ended 2017, furthermore with full knowledge of the Independent Auditor's Report, the Audit Committee's Report and the Supervisory Board's report, it accepts the proposal on the Bank's separate financial statements and the consolidated financial statements in accordance with the International Financial Reporting Standards for the year ended 2017, and the proposal for the allocation of the after-tax profit of the parent company.

The Annual General Meeting determines the statement of financial position for the year ended 2017 with total assets of HUF 7,771,882 million and with net profit for the period of HUF 251,550 million. The net profit for the period is allocated as follows: the general reserve must be increased by HUF 25,155 million, and HUF 61,320 million shall be paid as dividend from the net profit for the period.

The dividend per share is HUF 219, compared to the face value of shares it's 219%. The actual rate of dividend paid to shareholders is calculated and paid based on the Articles of Association, so the Company distributes the dividends for its own shares among the shareholders who are entitled for dividends. The dividends shall be paid from 4 June 2018 in accordance with the policy determined in the Articles of Association.

The Annual General Meeting determines the Company's consolidated balance sheet with total assets of HUF 13,190,228 million, and with net profit of HUF 281,339 million. The profit for shareholders is HUF 281,142 million.

APPROVAL OF THE
CORPORATE GOVERNANCE REPORT FOR Y2017

Corporate Governance Report

Introduction

OTP Bank Plc. (hereinafter: OTP Bank, Bank or Company) regards the development and maintenance of an **advanced corporate governance system** that conforms to local and international standards as being of primary importance. A reliable governance system, accurate financial planning, responsible management and the appropriate control mechanisms provide a stable basis for efficient and profitable operation.
In the interests of this, the Bank continuously reviews and develops its corporate governance practices.

Our corporate governance practice is one of the key elements in ensuring **we are able to achieve our strategic objectives**. Accordingly, within the statutory parameters, we have developed the corporate governance system in a way that simultaneously ensures the confidence and satisfaction of our customers, growth in shareholder value, and socially responsible corporate conduct. There is no perfect, universally applicable corporate governance solution that is always able to ensure the achievement of every goal in the most efficient manner possible. For this reason we continuously monitor our practices, identifying any deficiencies that might arise from external and internal changes, and implement the modifications that best serve the fulfilment of our objectives.

The governance structure adjusted to these objectives reflects the specific characteristics of our activity, as well as the statutory, supervisory and stock-exchange requirements that apply to the Bank, including the guidelines of the Budapest Stock Exchange (hereinafter: BSE). The aim of the BSE's corporate governance guidelines is to ensure that the governance and operating structure of listed companies is **transparent and comparable** based on a uniform set of criteria. This enables investors, taking into consideration the specific characteristics of a given company's operations, the complexity of its activities, and the statutory requirements related to its risk management and financial reporting, to make a well-founded judgement regarding the extent to which the given corporate governance practice ensures reliable and profitable operation.

Like all organisations that provide financial and investment services, the Bank's activity is, to a high degree, regulated in statutory provisions. As a consequence, not only certain of our business activities, but our operations as a whole are regulated in detail and monitored by the authorities on a continuous basis. The individual internal control functions (risk management, compliance, and internal audit) have to conform to strict standards, and their effectiveness must be evidenced not only within the internal corporate governance system, but also to the satisfaction of the external supervisory authorities. All these factors assure purposeful, comprehensive and controlled risk management procedures, as well as reliable and appropriately supervised data reporting. Therefore, our status as a financial and investment service provider requires us to implement complex and effective corporate governance practices that simultaneously ensure **responsible conduct towards clients and shareholders, reliable operation, and long-term profitability**.

1.) Statement on Corporate Governance Practice

The Bank's operation fully complies with the provisions of the relevant statutory regulations, the decrees of the supervisory authorities and the regulations of the BSE. The structure and operating conditions of the Company are contained in the Articles of Association, which are approved by the General Meeting.

1.1. Management bodies

Board of Directors

The Company's management body is the Board of Directors. In its objectives and activities, particular emphasis is placed on increasing shareholder value, profitability and efficiency, and on managing risks and complying fully with external requirements – in other words on ensuring the most effective enforcement of business, ethical and internal control policies.
The scope of its authority is defined in the effective statutory provisions, the Company's Articles of Association, General Meeting resolutions, and the Organisational and Operational Regulations. Its rules of procedure include the legal status and composition of the Board of Directors, as well as the regulations applicable to its operation and decision making.
All the obligations and prohibitions specified for executive officers under Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Credit Institutions Act) apply to the members of the Board of Directors.
The Board of Directors has an executive role in the governance of the Bank, and this is reflected in its members' remuneration, an important element of which is the share-based honorarium, which serves to harmonise the interests of the board with those of the shareholders.
It oversees the Company's operative management through the Chairman & CEO. The Chairman & CEO is authorised to decide in all matters that do not, pursuant to the Articles of Association, fall within the scope of authority of the General Meeting or the Board of Directors. The employer's rights related to the executive officers of the Company are in general exercised by the Board of Directors as a corporate body, with the proviso that in the case of the deputy CEOs, employer's rights are exercised through the Chairman & CEO, and the prior notification of the Board of Directors is required for their appointment and for the withdrawal of their appointment.
Since the Board of Directors also has an important role in overseeing the work of the management, it is of substantive importance that **the principle of a majority of external (non-executive) members be implemented in respect of the Board of Directors**. The composition of the Board of Directors ensures that professional expertise, experience, and a degree of impartiality that goes beyond the above-mentioned independence requirement, are brought to bear in equal measure in the decision-making processes.

Members of the Board of Directors of OTP Bank Plc.:

The members of the Board of Directors are elected by the General Meeting for a term of five years.

Executive members:

Dr. Sándor Csányi
Chairman & CEO

Dr. Sándor Csányi graduated from the College of Finance and Accountancy in 1974 with a bachelor's degree in business administration and in 1980 from the Karl Marx University of Economic Sciences with a degree in economics. He is an economist with a specialisation in finance, and a certified auditor. After graduation he worked at the Revenue Directorate and then at the Secretariat of the Ministry of Finance, after which, between 1983 and 1986, he was a departmental head at the Ministry of Agriculture and Food Industry. From 1986 to 1989 he worked as a head of department at Magyar Hitel Bank. He was deputy CEO of K&H Bank from 1989 to 1992. He has been Chairman & CEO of OTP Bank Plc. since 1992. He is a member of the European Advisory Board of MasterCard, one of the world's leading payment card companies, and is Deputy Chairman of the Board of Directors of MOL Plc., Co-Chairman of the National Association of Entrepreneurs and Employers (VOSZ), and Co-Chairman of the Chinese-Hungarian Business Council. He has been Chairman of the Hungarian Football Association (MLSZ) since July 2010, and a member of the UEFA Executive Committee since March 2015. Since April 2017 he has been a member of the FIFA Council.
As of 31 December 2017 he held 605,097 ordinary OTP shares (while the total number of OTP shares held by him directly and indirectly was 2,405,097).

Antal György Kovács
Deputy CEO
Retail Division

Antal György Kovács graduated from the Karl Marx University of Economic Sciences with a degree in economics. He began his professional career in 1990 at the Nagyatád branch of K&H Bank, where he worked as a branch manager between 1993 and 1995. He has been working at OTP Bank Plc. since 1995, first as a county director and from 1998 as the managing director of OTP Bank's South Transdanubian Region. Since 1 July 2007 he has served as OTP Bank's Deputy CEO. He has received additional training at the International Training Centre for Bankers and on various courses held by the World Trade Institute.
Between April 2007 and April 2012 he was Chairman of the Supervisory Board of OTP banka Hrvatska d.d.
He has been Chairman of the Supervisory Board of OTP Bank Romania SA since 12 December 2012. He has been Chairman of the Board of Directors of OTP Mortgage Bank Ltd. and OTP Building Society Ltd. since 24 April 2014. He is Chairman of the Supervisory Board of OTP Fund Management and OTP Mobile Kft.
From 2004 to 14 April 2016 he was a member of OTP Bank's Supervisory Board.
He has been a member of OTP Bank's Board of Directors since 15 April 2016.
As of 31 December 2017 she held 23,728 ordinary OTP shares.

László Wolf
Deputy CEO
Commercial Banking Division

László Wolf graduated from the Karl Marx University of Economic Sciences in 1983.
After graduation, he worked at the Bank Relations Department of the National Bank of Hungary for 8 years, and then served as head of Treasury at BNP-KH-Dresdner Bank between 1991 and 1993.
From April 1993 he was managing director of OTP Bank’s Treasury Directorate, and since 1994 he has been Deputy CEO of the Commercial Banking Division. Member of DSK Bank’s Supervisory Board. He has been Chairman of the Board of Directors of OTP banka Srbija since 10 December 2010. He is Chairman of the Supervisory Board of OTP Real Estate Ltd.
He has been a member of OTP Bank's Board of Directors since 15 April 2016.
As of 31 December 2017 she held 597,164 ordinary OTP shares.

Non-executive members:

Mihály Baumstark
BSc Agricultural Business Administration, MSc Economics

Mihály Baumstark graduated with a degree in agricultural business administration at Gödöllő University of Agriculture (1973), and went on to do a masters in economics at the Karl Marx University of Economic Science (1981). He was employed by the Ministry of Agriculture and Food Industry between 1978 and 1989. When he left the Ministry he was deputy head of the Investment Policy Department. After this he was managing director of Hubertus Bt., and from 1999 to 2012 he was deputy CEO and then Chairman & CEO of Villányi Winery Ltd. (now Csányi Winery Ltd.). He is currently retired. He was a member of OTP Bank’s Supervisory Board from 1992 to 1999, and has been a non-executive member of OTP Bank’s Board of Directors since 1999. He has been Chairman of OTP Bank's Ethics Committee since 2010, as well as a member of its Remuneration Committee since 2011, and of its Nomination Committee since 2014.
As of 31 December 2017 she held 54,400 ordinary OTP shares.

Dr. Tibor Bíró
College Associate Professor

Dr. Tibor Bíró graduated with a bachelor’s degree in business administration from the College of Finance and Accountancy (1974) and received a further degree from the Karl Marx University of Economics (1978). He has been a certified auditor and chartered accountant since 1986. He was the Head of the Financial Department of the City Council of Tatabánya from 1978 to 1982. From 1982, he was a professor at the College of Finance and Accounting, and between 1990 and 2013 head of department at the Budapest Business School. Since his retirement in 2015, he has been a visiting lecturer, and working actively in his auditing and consulting company.
From 2000 onwards, for a period of ten years, he was a member of the Presidium of the Budapest branch of the Chamber of Hungarian Auditors, and also worked as a member of the Chamber’s Education Committee for five years.
He has been a non-executive member of OTP Bank’s Board of Directors since 1992. He has been a member of OTP Bank's Remuneration Committee since 2009, and of its Nomination Committee since 2014.
As of 31 December 2017 she held 22,356 ordinary OTP shares.

Tamás Erdei
BSc Business Administration

Tamás Erdei graduated in 1978 with a degree from the College of Finance and Accounting. He began his professional career at OTP, in a variety of administrative roles (his last position was branch manager), before going on to work at the Ministry of Finance in the area of bank supervision.
Since 1983 he has been employed by the Hungarian Foreign Trade Bank (today MKB), where he gradually worked his way up through the ranks. In 1985 he became managing director, in 1990 he was appointed deputy CEO, then in 1994 he was made CEO, and from 1997 until the end of March 2012 he was Chairman & CEO.
Between 1997 and 2008, and between 2009 and 2011, he was the elected president of the Hungarian Banking Association.
He is the chairman of the Supervisory Board of the International Children's Safety Service.
He has been a member of OTP Bank's Board of Directors since 27 April 2012. He has been a member of OTP Bank's Risk Assumption and Risk Management Committee, and of its Nomination Committee, since 2014.
As of 31 December 2017 she held 16,039 ordinary OTP shares.

Dr. István Gresa
PhD Business Administration and Economics

Dr. István Gresa graduated from the College of Finance and Accountancy in 1974 and received a degree in economics from the Karl Marx University of Economic Sciences in 1980. He earned a PhD from the University of Economic Sciences in 1983.
He has worked in the banking sector since 1989. Between 1989 and 1993 he was branch manager of Budapest Bank's Zalaegerszeg branch.
From 1993 he was director of OTP Bank's Zala County Directorate, and from 1998 he served as the managing director of the bank's West Transdanubian Region.
From 1 March 2006 until 14 April 2016 – when he retired – he was deputy CEO of the Credit Approval and Risk Management Division. Between 2006 and 2017 he was also Chairman of the Board of Directors at OTP Factoring Ltd.
He has been a member of OTP Bank's Board of Directors since 27 April 2012.
As of 31 December 2017 she held 143,071 ordinary OTP shares.

Dr. Antal Pongrácz
PhD Economics

Dr. Antal Pongrácz graduated from the Karl Marx University of Economic Sciences in 1969 and earned a PhD from there in 1971. From 1969 he worked as an analyst at the Petrochemical Investment Company, then as a group manager at the Revenue Directorate until 1975. From 1976 he held various executive positions at the Ministry of Finance. After that, he was the first Deputy Chairman of the State Office for Youth and Sports. Between 1988 and 1990 he was the first Deputy CEO of OTP Bank. Between 1991 and 1994 he was CEO, and then Chairman & CEO, of the European Commercial Bank Rt. Between 1994 and 1998 he was Chairman & CEO of Szerencsejáték Rt, then in 1998-99 he served as CEO of Hungarian flagship carrier, Malév. Since 2001 he has been managing director of OTP Bank's Staff Division and more recently – up until his retirement on 14 April 2016 – Deputy CEO.
He has been Chairman of the Supervisory Board of OTP banka Hrvatska d.d. since 12 April 2012 and of Splitska banka since 2 May 2017.
He has been a member of OTP Bank's Board of Directors since 2002. He was Deputy Chairman of OTP Bank Plc's Board of Directors from 9 June 2009 to 14 April 2016.
As of 31 December 2017 she held 82,101 ordinary OTP shares.

Dr. László Utassy
Chairman & CEO
Merkantil Bank Zrt.

Dr. László Utassy graduated from the Faculty of Law of Eötvös Loránd University in Budapest in 1978.
He held various positions at the State Insurance Company between 1978 and 1995 and then went on to work at ÁB-Aegon Rt. He was Chairman & CEO of OTP Garancia Insurance from 1996 to 2008. He was managing director of OTP Bank between 2009 and 2010. Since 1 January 2011 he has been Chairman & CEO of Merkantil Bank Ltd.
He has been a member of OTP Bank's Board of Directors since 2001. He has been a member of OTP Bank's Risk Assumption and Risk Management Committee since 2014.
As of 31 December 2017 she held 200,000 ordinary OTP shares.

Dr. József Vörös
Professor, academician
University of Pécs

Dr. József Vörös earned a degree in economics from the Karl Marx University of Economic Sciences in 1974. In 1984 he earned a PhD in economics from the Hungarian Academy of Sciences, and a Doctor of Science degree in 1993. He has been a member of the Hungarian Academy of Sciences since 2013. Between 1990 and 1993 he was the dean of the Faculty of Business and Economics, Janus Pannonius University (JPTE) in Pécs. In 1993 he attended a course in management for senior executives at Harvard University. From 1994 he was a professor at JPTE, and was the senior Vice Rector of the University from 2004-2007, between 2007 and 2011 he was chairman of the Board of Trustees.
He has been a non-executive member of OTP Bank's Board of Directors since 1992. He has been Chairman of OTP Bank's Remuneration Committee since 2009, and of its Risk Assumption and Risk Management Committee since 2014.
As of 31 December 2017 she held 150,714 ordinary OTP shares.

Operation of the Board of Directors of OTP Bank Plc.

Meetings of the **Board of Directors** are convened by the Chairman & CEO by means of a written invitation, in accordance with the prevailing work schedule.

The Chairman & CEO must convene a meeting of the Board of Directors if
- the Board of Directors has passed a resolution calling for an expedited meeting of the Board of Directors;
- At least three members of the Board of Directors initiate a meeting in writing by designating the reason and the purpose, and the agenda items, and by submitting a written proposal in respect of the decision to be made;
- The Supervisory Board or the auditor initiates such a meeting in writing;
- The National Bank of Hungary (hereinafter: MNB or Supervisory Authority) requires it;
- Under the law, a decision must be made about whether to convene an extraordinary General Meeting.

The meetings of the Board of Directors shall be held as necessary, but at least six times a year.

The Board of Directors passes resolutions in accordance with the rules of procedure, by simple majority; minutes must be taken of its meetings, and its resolutions must be documented.

If decisions are made without convening a meeting, instead of the minutes, a summary must be prepared of the resolutions and these must be attached to the minutes of the next meeting of the Board of Directors that follows the successful written vote.

The table below provides a brief overview of the number of Board of Directors meetings held in 2017, and of the attendance at these meetings:

Board of Directors meetings 2017

Date	***Present***	*Absent*
27/2	*9*	*1*
16/3	*10*	*-*
12/6	*9*	*1*
18/09	*10*	*-*
14/11	*9*	*1*
14/12	*9*	*1*

Note:
In 2017 the Board of Directors met on a total of 6 occasions. In addition, resolutions were passed on 98 occasions by written vote.

The items on the agenda of the Board of Directors included, among other things, the tasks stipulated by law, such as making a decision on convening, and specifying the agenda of, the General Meeting, the acceptance of the documents submitted to the annual ordinary General Meeting, preparing a proposal concerning the annual report prepared in accordance with the Accounting Act and the use of the after-tax profit, preparation of the report on the management, on the Company's asset/liability position and on its business policy, measures taken to ensure the appropriate management of the Bank's trading books.
Additional, strategic tasks are, for example, the approval and annual review of the Bank's strategy, determination of its business plan, a review of the Bank's asset/liability position based on the quick reports, review of the Bank's liquidity situation, evaluation of changes in the qualified receivables portfolio, approval and review of the regulations that fall within the Board of Director's scope of authority (collateral evaluation, risk assumption, customer rating, etc.), regular review of compliance with the Credit Institutions Act and Act CXX of 2001 on the Capital Market (hereinafter: Capital Market Act), compliance, and customer complaints management. Furthermore, the Board of Directors is informed of any undertaking of obligations in excess of HUF 3 billion.
In addition, as part of its operative duties, the Board of Directors may make case-by-case decisions in respect of transactions that exceed the threshold value limit.

Supervisory Board

At the Bank, in line with the two-tier governance structure, the Supervisory Board performs the oversight of the Company's management and business activity. For this reason – and in accordance with the legal provisions – the principle of a majority of independent (non-executive) members is fully enforced in respect of the composition of the Supervisory Board.

The ratio of independent (non-executive) Supervisory Board members (4 persons) to the total number of Supervisory Board members (6 persons) is 67%.

The rules applicable to the appointment and recall of the employee delegate of the Supervisory Board are defined by the Works Council operating at the Company, and the Company does not consider such a member to be independent.

In order to avoid conflicts of interest, the General Meeting may not appoint the members of the Board of Directors and their close relatives to the Supervisory Board.

The Supervisory Board determines and approves its own rules of procedure.

The Company's internal audit organisation is governed by the Supervisory Board, in keeping with the provisions specified in the Credit Institutions Act. The Supervisory Board exercises a preliminary right of consent in respect of decisions relating to the establishment and termination of the employment of, and well as the determination of the remuneration of, the managers of the internal audit department.

It is the task of the Supervisory Board to accept and regularly review – within the limits defined by the General Meeting – the principles of the Remuneration Policy.

Members of the Supervisory Board of OTP Bank Plc.:

Supervisory Board members are elected by the General Meeting for a term of three years.

Independent members:

Tibor Tolnay
Chairman of the Supervisory Board

Tibor Tolnay graduated from the Budapest University of Technology with a degree in civil engineering in 1978 and then in economic engineering in 1983, and subsequently received a degree in economics from the Budapest University of Economics in 1993.
From 1994 to 2015 he was Chairman & CEO of Magyar Építő Rt. He has been the managing director of ÉRTÉK Kft. since 1994,
and a member of OTP Bank's Supervisory Board since 1992, and Chairman of the same Board since 1999. He was a member of OTP Bank's Audit Committee between 2007 and 2011, and has been again since 2014.
As of 31 December 2017 he held 54 ordinary OTP shares.

Dr. József Gábor Horváth
Deputy Chairman of the Supervisory Board
Lawyer

Dr. József Gábor Horváth earned a degree in law from Eötvös Loránd University in Budapest in 1980. From 1983 he worked for the Hungarian State Development Bank. From 1983 he worked for the Hungarian State Development Bank. He has been a lawyer since 1986, and since 1990 has run his own law firm, which specialises in corporate finance and corporate governance. His main fields of expertise are corporate finance and corporate governance. He has been a member of the Supervisory Board of OTP Bank since 1995, and was a member of MOL Plc's Board of Directors between 1999 and 2014.
He has been Deputy Chairman of OTP Bank's Supervisory Board since 2007. He was a member of OTP Bank's Audit Committee between 2007 and 2011, and has been again since 2014. He has been a member of the Board of Directors of INA Industrija Nafte d.d. since 2014.
As of 31 December 2017 he held no ordinary OTP shares.

Dominique Uzel
Director
Groupama International SA

Dominique Uzel graduated as an agricultural development engineer, then obtained a Master's degree in agricultural and food industry management at the ESSEC Business School. He joined Gan in 1991 as head of the agricultural division. Five years later he left France to join Gan España, where he headed the subsidiary's department responsible for planning and auditing, then became technical director of the newly established Groupama Seguros. In 2008 he was appointed managing director of the insurance business, in which capacity he was instrumental in the launch and roll-out of Click Seguros, a direct marketing tool on the Spanish insurance market. In July 2010 he joined the international board of directors of Groupama S.A. as Managing Director for direct insurance, but he also continued to be responsible for the management of the direct insurance division in Spain and Poland. Since 1 October 2012 he has coordinated the international operations of Groupama.
He has been a member of OTP Bank's Supervisory Board since 2013. He has been a member of OTP Bank's Audit Committee since 2014.
As of 31 December 2017 he held no ordinary OTP shares.

Dr. Márton Gellért Vági
General Secretary
Hungarian Football Association

Dr. Márton Gellért Vági graduated in 1987 from the department of foreign economics at the Karl Marx University of Economic Science (today the Corvinus University of Budapest), where he also earned his doctorate in 1994. From 1987 to 2000 he was a member of the university faculty, in the capacity of associate professor and head of department from 1994 onwards. Between 2000 and 2006 he worked at the State Holding and Privatisation Co. (ÁPV Zrt.), as managing director, deputy CEO and then CEO. Between 2006 and 2010 he was Chairman of the National Development Agency. From July 2002 until 1 January 2011 he was a member of the Board of Directors of FHB Nyrt., during which period he also spent four years as Chairman of the Board. Since 2010 he has been general secretary of the Hungarian Football Association.
He has been a member of the UEFA HatTrick Committee since 2011 and of FIFA's Financial Committee since 2017.
He has authored or co-authored more than 80 research papers, essays and books.
He has been a member of OTP Bank's Supervisory Board since 2011. He has been a member of OTP Bank's Audit Committee since 2014.
As of 31 December 2017 he held no ordinary OTP shares.

Employee delegates:

Ágnes Rudas
Managing Director
Presidential Cabinet Office

Ágnes Rudas, who represents the employees of OTP Bank, graduated from the College of Finance and Accounting with a degree in business economics in 1979. Certified accountant.
She has worked for the bank since 1992, first as a head of department coordinating the secretarial services supporting the bank's operative activity, then from 1994 onwards she managed organisational development, process engineering and efficiency-boosting projects. From 1999 she was the director in charge of the bank's human resources activity, and since 2007 she has been a managing director. She has been head of the Presidential Cabinet Office since 2016.

She has been a member of the Board of Directors of the OTP Voluntary Supplementary Pension Fund since 1 January 2008, and a member of the Supervisory Board of OTP Banka Slovensko a.s. since 12 April 2012.
With effect from 15 April 2016 she is a member of OTP Bank's Supervisory Board.
As of 31 December 2017 she held 145,598 ordinary OTP shares.

András Michnai
Managing Director

András Michnai graduated in 1981 from the College of Finance and Accounting with a degree in business administration.
He has been an employee of the Bank since 1974, and until 1981 held a variety of posts in the branch network. Following this he held a management position in the central network coordination department before returning to work in the branch network. From 1994, as deputy managing director, he participated in the central coordination of the branch network. Between 2005 and 2014 he headed the Bank's Compliance Department as a managing director. He further expanded his professional skills, earning a Master's degree at the Budapest Business School, and is a registered tax advisor.
He has been a member of OTP Bank's Supervisory Board, and representative of the Bank's employees, since 2008. He has been Secretary of OTP Bank's Employees' Trade Union since December 2011.
As of 31 December 2017 she held 5,624 ordinary OTP shares.

Operation of the Supervisory Board of OTP Bank Plc.

The **Supervisory Board** meets at least six times a year.

The meetings of the Supervisory Board are convened by the chairman. The meetings must also be convened if a member of the Supervisory Board or at least two members of the Board of Directors, or the auditor, requests it in writing, indicating the objectives and reasons for the meeting.

The Supervisory Board passes its resolutions by simple majority; minutes are taken of its meetings, and its resolutions are documented.

If decisions are made without convening a meeting, instead of the minutes, a summary must be prepared of the resolutions and these must be attached to the minutes of the next Supervisory Board meeting that follows the successful written vote.

The table below provides a brief overview of the number of Supervisory Board meetings held in 2017, and of the attendance at these meetings:

Supervisory Board Meetings
2017

Date	*Present*	*Absent*
17 Feb.	*5*	*1*
03/03	*5*	*1*
16/3	*4*	*2*
*12/04**	*5*	*1*
19/05	*6*	*-*
16/06	*5*	*1*
22/09	*5*	*1*
01/12	*4*	*2*
14/12	*6*	*-*

Note:
In 2017 the Supervisory Board met on a total of 9 occasions. In addition, resolutions were passed on 37 occasions by written vote.
**On 12 April 2017 the Bank's General Meeting elected a 6-member Supervisory Board*

The main function of the Supervisory Board is to see to it that the Bank has a comprehensive and effectively operating system of oversight and control. The agendas of the meetings included, among other things, the review of documents to be submitted to the annual ordinary General Meeting, a report on the annual financial statements and on the proposal concerning the use of the after-tax profit, the review of the Bank's annual and interim financial reports, and the proposal to the General Meeting regarding the auditor to be elected as well as his/her remuneration.
The tasks concerning the management of the internal audit unit includes the acceptance of the audit plan at the bank-group level, and the discussion of the report at the bank-group level of the audits performed by the internal audit units and of the performance of the audit tasks at the bank-group level.
The principles and frameworks of the long-term remuneration and incentives system for employees in senior positions are determined by the General Meeting. With effect from 2014, the provisions of the Bank Group's Remuneration Policy are approved, implemented and reviewed by the Supervisory Board, while the Board of Directors is responsible for their monitoring. Accordingly, it adopts the necessary decisions in matters related to the operating of the Remuneration Policy.
Additional agenda items include compliance with the provisions of the Credit Institutions Act, the situation regarding group-level implementation of the Unified Internal Audit System and the further development of the system, a review of the volume and composition of the qualified receivables portfolio, changes in impairment and in the risk provisioning obligation, report on compliance activity, etc.

1.2 Audit Committee

The Audit Committee is a body that assists the work of the Supervisory Board in relation to the monitoring of the financial reporting system, selection of the auditor, and cooperation with the auditor. Under its new powers exercised since 1 January 2017, it monitors the internal audit, risk management and reporting systems, as well as the auditor's activity. The Audit Committee reviews and monitors – in respect of the entire OTP Bank Group – the auditor's independence, with special regard to the performance of any non-prohibited non-audit services to be provided by the auditor in addition to its audit activity. Furthermore, it fulfils the audit committee tasks of the domestic subsidiary banks.

Members of OTP Bank Plc's Audit Committee:

The Audit Committee consists of four members, and its members are elected by the General Meeting from among the **non-executive** members of the Supervisory Board. They are elected for a term of three years. The Audit Committee elects a chairperson from among its own members.

Dr. József Gábor Horváth
Chairman of the Audit Committee

(For his CVs, see the section entitled 'Management bodies')

Tibor Tolnay

(For his CVs, see the section entitled 'Management bodies')

Dominique Uzel

(For his CVs, see the section entitled 'Management bodies')

Dr. Márton Gellért Vági

(For his CVs, see the section entitled 'Management bodies')

Operation of OTP Bank Plc.'s Audit Committee

The Audit Committee meets at least two times a year.

The table below provides a brief overview of the number of Audit Committee meetings held in 2017, and of the attendance at these meetings:

Audit Committee meetings
2017

Date	*Present*	*Absent*
16/3	3	1
12/04	3	1
14/12	4	-

Note:
In 2017 the Audit Committee met on a total of 3 occasion. In addition, resolutions were passed on 21 occasions by written vote.

The items on the agenda of the Audit Committee meetings included, among others, a briefing on the profit approved by the Company's auditor, the Company's non-consolidated financial statements prepared in accordance with International Financial Reporting Standards, the report on the financial statements and on the proposal regarding the distribution of the profit, and a recommendation on the selection of the Company's auditor, approval of the person nominated to be responsible for the audit, and the determining of his/her remuneration.
The proposals submitted by domestic subsidiary banks in relation to the new powers, as well as the quarterly reports on contracts for non-prohibited auditor's services, have also been included in the agenda of the Audit Committee.

Remuneration of the members of the Board of Directors, the Supervisory Board and the Audit Committee

Determining the remuneration of the Board of Directors, the Supervisory Board and the Audit Comittee is in the competence of the Company's supreme body, the General Meeting.

1.3. The operation of the committees

a) Committees that operate with the participation of non-executive members of the Company's Board of Directors:

Remuneration Committee
The Remuneration Committee, established by the Board of Directors and meeting on a continuous basis, prepares proposals to the management bodies for elaborating and monitoring the guidelines and system of remuneration, as well as for specific remuneration decisions.
The Remuneration Committee exercises its authority as a body.
Its chairperson and members are appointed by the Board of Directors, and its rules of procedure are also approved by the Board of Directors.

Nomination Committee
This committee, which was established by the Board of Directors in 2014 and operates on a continuous basis, elaborates the principles for selection of the members of the Bank's executive bodies, and nominates candidates accordingly, and also makes recommendations regarding the basic principles and framework for the testing of compliance with the requirements prescribed in respect of members of the executive bodies of the Bank and the Bank Group, and in respect of employees in management and key positions.
Its chairperson and members are appointed by the Board of Directors, and its rules of procedure are approved by the committee itself.

Risk Assumption and Risk Management Committee
This committee, which was established by the Board of Directors and operates on a continuous basis, fulfils a decision support function, commenting on the Bank's risk assumption strategy and propensity for risk, and providing support for the supervision of implementation of the risk assumption strategy.
Its chairperson and members are appointed by the Board of Directors, and its rules of procedure are approved by the committee itself.

b) **Special committee:**

Ethics Committee
A special committee of the Bank established by the Board of Directors – and consisting of delegated members thereof – presided over by one of the non-executive members of the Board of Directors.
The committee gives guidance on compliance with standards of ethical conduct through its position statements issued in general and specific cases, and its decisions serving to assist with interpretation. The committee also makes decisions in the event of reports, relating to the Bank, made via the ethical complaints hotline, or investigates the reports and makes a decision in a second-tier procedure.
Its rules of procedure are approved by the committee itself.

c) The **permanent committee** established by the Bank's Board of Directors in support of management functions:

Management Committee
The Management Committee is a permanent committee established by the Board of Directors. It is a forum that directly supports the work of the Chairman & CEO and is the supreme management body of the Bank. It has decision making power in the issues that are relegated into its scope of authority by the Organisational and Operational Regulations, it takes a preliminary position and prepares decisions in the majority of issues that are discussed by the General Meeting, the Board of Directors and the Supervisory Board, and plays a coordinating role in the senior management of the Bank.
The Management Committee also ensures that the Bank can respond flexibly and effectively to market and regulatory factors and that the Bank as a whole can act in a coordinated fashion.
The Management Committee performs its work on the basis of a six-month work schedule approved by the committee itself, and meets once a month (and on an ad-hoc basis as and when necessary). Its order of business is determined by its rules of procedure.

The following additional permanent committees operate within the Company for the performance of specific tasks:
- Asset-Liability Committee (ALCO)
- Product Development, Sales and Pricing Committee (TÉÁB)
- International Product Development, Sales and Pricing Committee (NTÉÁB)
- Work-Out Committee (WOB)
- Credit and Limits Committee (HLB)
- IT and Operations Board (ITOB)
- Group Operational Risk Management Committee (OpRisk)

Decisions to establish permanent committees are made by the Bank's Board of Directors. The chairpersons of the committees are nominated by the Chairman & CEO, and their rules of procedure – with the exception of the Management Committee – are approved by the head of the Legal Directorate. The Management Committee approves its own rules of procedure. In respect of resolutions, the Asset-Liability Committee, the Credit and Limits Committee, the Group Operational Risk Management Committee, the International Product Development, Sales and Pricing Committee, and the Work-Out Committee, operate on the principle of simple majority, whereas the Management Committee, the Product Development, Sales and Pricing Committee and the IT and Operations Board also pass decisions by a simple majority, but the chairperson has a right of veto.

1.4. Members of OTP Bank Plc.'s senior management (with CV):

Dr. Sándor Csányi
Chairman & CEO

(For his CVs, see the section entitled 'Management bodies')

László Bencsik
Chief Strategy and Finance Officer
Strategy and Finance Division

In 1996, Mr. László Bencsik graduated from the Faculty of Business Administration at the Budapest University of Economic Sciences, and in 1999 he obtained a Master's in Business Administration (MBA) from INSEAD Business School in France.

Between 1996 and 2000 he worked as a consultant at Andersen Consulting (now Accenture). From 2000 to 2003 he was a project manager at consulting firm McKinsey & Company.
He joined OTP Bank in 2003, when he became managing director of the Bank Operations Management Directorate, and the manager with overall responsibility for controlling and planning.
He has been deputy CEO of OTP Bank, and head of the Strategy and Finance Division, since August 2009. Since 13 March 2012 he has been Chairman of the Supervisory Board of DSK Bank.
As of 31 December 2017 she held 34,961 ordinary OTP shares.

Tibor András Johancsik
Deputy CEO
IT and Bank Operations Division

Mr. Tibor András Johancsik graduated from the Budapest Technical University with a degree in electrical engineering in 1988, and then in 1993 earned a further degree in foreign trade business administration from the College of Foreign Trade. He began his professional career at as a researcher in the field of industrial automation at the Hungarian Academy of Sciences Institute for Computer Science and Control (MTA SZTAKI). From 1994 onwards he held management positions at the Hungarian subsidiaries of international IT development companies (ICL, Unisys, Cap Gemini).
From 2001 he worked as an advisor in the fields of IT and organisational development, then from 2003, as managing director of JET-SOL Kft., he participated in the development of numerous systems in Hungary and abroad.
Since 24 February 2016 he has been Deputy CEO in charge of OTP Bank's IT and Bank Operations Division.
As of 31 December 2017 she held 4,510 ordinary OTP shares.

György Kiss-Haypál
Deputy CEO
Credit Approval and Risk Management Division

György Kiss-Haypál is a qualified economist. He graduated from the Budapest University of Economic Sciences in 1996. He started his career as a project finance analyst for Budapest Bank Plc., and by 2007 he had been appointed head of the bank's risk management department. Between 2002 and 2006 he also worked in Ireland as corporate credit risk portfolio manager for GE Consumer Finance, and in Austria as GE Money Bank's consumer loans portfolio manager.
From 2015 he was deputy head of the Credit Approval and Risk Management Division of OTP Bank Plc., and was then appointed acting head of the Division.
Since 3 May 2017, he has been deputy CEO of the Credit Approval and Risk Management Division.
He has been chairman of the Board of Directors at OTP Factoring Ltd. since 1 September 2017.
As of 31 December 2017 he held 6,935 ordinary OTP shares.

Antal György Kovács
Member of the Board of Directors, Deputy CEO
Retail Division
(For his CVs, see the section entitled 'Management bodies')

László Wolf
Member of the Board of Directors, Deputy CEO
Commercial Banking Division

(For his CVs, see the section entitled ‘Management bodies’)

1.5. Internal control system

The appropriate functioning of the internal control system is provided for, at bank-group level, in accordance with the relevant statutory regulations and in keeping with the relevant Recommendations.
The internal control system, alongside responsible corporate governance, is a cornerstone of the internal lines of defence that promote prudent, reliable and effective operation in accordance with the statutory regulations and internal regulations, protects the economic interests and social objectives of the customers and the owners and ensures continued trust in the Company.
The internal control functions are independent of each other and of the areas they supervise and audit. A significant aspect of their operation is management support; however, internal control functions are also expected to provide support to the senior management in making sound decisions.

Internal audit

The main function of the internal audit system is to protect customers, the company’s assets and shareholder’s interests, as well as to facilitate and monitor operation in compliance with the statutory provisions.

The internal audit system extends to all of the company’s organisational units, business lines and activities, including outsourced activities. To ensure effective auditing, the internal audit system consists of several modular control levels, and is segmented in line with the departmental structure of the organisation. The elements of the internal audit system are comprised of in-process and management controls, and an independent internal audit unit and management information system.

OTP Bank Plc. has developed and applies such a unified internal audit system consistently throughout the Bank Group that is proportionate to the size of the OTP Group and the market share of the Company, includes shareholder audits conducted at the foreign and domestic group members as well as the professional oversight of the internal audit organisations of the financial institutions that are subject to consolidated supervision as specified in the Credit Institutions Act. To this end, standardised internal audit procedures and methodologies pertaining to the operation and activities of group members’ internal audit departments are developed, enhanced and applied on a continuous basis. Internal audit also liaises regularly and cooperates with external auditing bodies.

The independent internal audit unit assists in the legally compliant and effective management of assets and liabilities and the protection of property; it supports secure business operation, the effectiveness, cost-efficiency and success of internal control systems, the minimisation of risks, and moreover – alongside the compliance unit – it detects and reports departures from the provisions of the statutory regulations and internal policies, makes recommendations for the elimination of deficiencies, and monitors the implementation of the measures. It performs its activities independently, objectively and professionally. Its independence is ensured by the fact that it is professionally overseen by the Supervisory Board, within the framework set out by the Credit Institutions Act. The internal auditing organisation is structured in a way that ensures the performance of owner's audits at the Company, in the branch network and at the foreign and Hungarian subsidiaries, as well as the professional supervision of the subsidiaries' own internal audit organisations in Hungary and abroad.

The independent internal audit organisation has an annual audit plan which is approved by the Supervisory Board. The annual plan is prepared using a risk-based methodology and, in addition to focusing on the areas that entail regulatory, business and operational risk, and the other main risk exposures, it treats the making of reports and the controlling of data as a priority, and takes into account the Company's prevailing strategic priorities.

The internal audit organisation makes independent reports on its auditing activities for the management bodies at quarterly and annual intervals. In its quarterly reports it gives a group-level, summary account of the audits conducted in the given quarter, the risks identified in the course of its own audits and audits conducted by the authorities, and the success of any action taken to eliminate them. In exceptional cases that require immediate intervention, it provides the management with extraordinary briefings. The audit organisation reports annually on the performance of the tasks set out in the group-level annual plan, the audits conducted and other activities, and on the circumstances of the organisation's operation, as well as on any changes to the internal audit system.

The organisation annually prepares, for the Supervisory Board, objective and independent reports in respect of the operation of risk management, internal control mechanisms and corporate governance functions.

Risk management

The basis for effective group-level risk management is the operating of a standardised, 'OTP-compliant' organisational structure as well as regulations and procedures at the subsidiaries concerned. The Company has detailed risk management rules for each of the various types of risk (liquidity, market, country, counterparty, credit, operational, compliance), and these rules are in harmony with the statutory regulations pertaining to prudential banking operations. The annual report describes the risk management practices, the limits, and compliance with these limits.

Within the Company, the Credit Approval and Risk Management Division and the Strategy and Finance Division exercise functional control over the guidelines, methodology and infrastructure of the bank-group risk management strategy, the purpose of which is to create a clearly defined, transparent, standardised credit, country, counterparty, market and operational risk management system at group level which complies with the expectations of the Supervisory Authority and local conditions. The Bank Group's Risk Assumption Strategy, as well and the rules on risk prescribed by the Credit Institutions Act, are approved by the Bank's Board of Directors.
The Risk Assumption Strategy determines, with respect to the entire Bank Group, the framework for risk management and the principles and guidelines of risk assumption.

With respect to the cornerstones of the risk management methodologies, and the main risk topics for Bank Group members, the final decision-making competence is held by the Group members' risk committees (Credit and Limits Committee, Workout Committee, Group Operational Risk Management Committee).
The Bank's risk management system encompasses the identification of the risks, assessment of their impact, elaboration of the necessary action plans, and the monitoring of their effectiveness and results. The management make their business decisions in a knowledge of all the key risks. All significant risks related to internal and external operations,

or to compliance with financial and legal requirements, as well as numerous other risks, are evaluated and managed using a clearly-defined and transparent internal mechanism.

Compliance

In accordance with EU regulations and with the Hungarian statutory provisions an independent organisational unit (the Compliance and Security Directorate) operates at the Company, with the task of exploring and managing compliance risks. This function is supported by the appropriate regulatory documents: the compliance and security policy, strategy and work plan. The purpose of the compliance and security policy is to set out a summary of the Bank's key principles related to compliance and security, and to mark out the main strategy relating to independent compliance and security activity, which together facilitate and support the Bank's compliant, lawful, secure and prudent operation. The compliance policy is approved by the Board of Directors of the Bank. The Bank Group's senior management is responsible for the implementation in practice of the compliance and security policy.
The Compliance and Security Directorate prepares a comprehensive report each year about the Bank Group's compliance activities and position, which is approved by the Bank's Board of Directors.

Auditor

The General Meeting has the authority to elect the company performing the audit, and to approve the nomination of the member responsible for the audit.

Our Company is audited by Deloitte Auditing and Advisory Kft. (Cg. 01-09-071057). Last year the auditor did not perform any activity that might have compromised its independence.
The Audit Committee makes a decision on any non-audit service provided to the auditor, and the related contract may only be concluded with the Committee's approval. The Audit Committee receives quarterly reports on the composition and the value of any non-auditor contracts, ensuring the independence of the auditor.
The Board of Directors must inform the Company's General Meeting and Supervisory Board if the auditor is given any other material mandates. In addition, if warranted, the Company's Board of Directors, Supervisory Board and other boards may use the services of an external consultant as well.

In the course of developing its accounting policy and accounting procedures, the Company establishes internal controls that reliability assure fulfilment of the Company's objectives in the interest of ensuring the reliability of financial reporting, the effectiveness and efficiency of the various corporate operations, consistency with the latest statutory provisions, and full compliance with the reporting requirements towards the individual regulatory bodies. The detailed tasks relating to the production or reports and to accounting audits are regulated in internal regulatory documents, the scope of which extends to all of the Bank's organisational units involved in the compilation of the financial statements.
An internal regulatory document provides instructions on the account-closing and reporting tasks related to the Company's interim (monthly, quarterly, half-yearly) and annual financial statements, and sets out in a consolidated format the account-closing operations, tasks and reporting actions to be performed monthly, quarterly, half-yearly and at the end of the year, specifying the deadline for completion of the tasks and the persons responsible.
Another regulatory document instructions on the inventory-taking and reconciliation of general ledger accounts serving the temporary recording of items that, at the time they arise, cannot for various reasons be stated immediately in actual asset or liability accounts, or in accounts that serve to record off-balance sheet items.

Pursuant to the provisions of the Accounting Act (IFRS's), the financial statements must be supported with an inventory report. An internal regulatory document sets out in detail the tasks related to inventory-taking, in the interest of assuring the authenticity of the balance sheet through the accurate valuation of assets and liabilities, and ensuring the auditing of records, and through this a strengthening of documentary discipline, the protection of property, and the identification of any depreciated inventory stock and assets that are no longer in use.
In addition to the foregoing, the Company has elaborated and applies detailed accounting procedures, and continuously adapts the related accounting rules in relation to individual new products and activities. The individual internal accounting documents relating to accounting are regularly (annually) reviewed, and updated where necessary. The legal, internal auditing and compliance units also participate in the elaboration and amendment of the Bank's internal regulatory documents.

1.6. Disclosure of information

Providing regular, authentic information is essential if the shareholders and the other participants in the capital market are to make sound decisions, and the way in which the Company discloses information also has an impact on its reputation.

The Company performs its disclosures in strict compliance with the provisions of Act V of 2013 on the Civil Code (hereinafter: Civil Code), the Capital Market Act, the Credit Institutions Act, Act CXXXVIII of 2007 on Investment Firms and Commodity Dealers, and the Regulations governing their Activities, Act C of 2000 on Accounting and Ministry of Finance Decree 24/2008 (VIII. 15), as well as the relevant Regulations of the BSE. In addition, the Company has effective internal regulations that ensure compliance with the obligation to disclose information.

The aforementioned regulations ensure that all material information concerning the Company, and that may affect the price of the Company's shares, is published accurately, in full, and in good time.

The Board of Directors provides information on the business and strategic goals of the given year at each annual ordinary General Meeting. The proposal to the General Meeting is published by the Company on the website of the Budapest Stock Exchange in accordance with its rules of disclosure and the provisions of the relevant regulations of the BSE.

The Company, in accordance with the statutory regulations, publishes on the Company's website and in its Annual Report the professional careers of the members of the Board of Directors, the Supervisory Board and the management.

The proposal pertaining to the remuneration of the chairman and members of the Board of Directors and the chairman and members of the Supervisory Board constitute a part of the proposals of the General Meeting.

The Company has detailed risk management regulations that include every type of risk (liquidity, market, country, counterparty, credit, operational, compliance) which are consistent with the statutory regulations pertaining to prudential banking operation. The Annual Report provides information about the Company's risk management practices, the relevant limits and compliance with the limits.

The Company has detailed internal regulations pertaining to insiders and potential insiders that fully comply with the restrictions and prohibitions regulated in detail by the Capital Market Act. In addition, the guidelines pertaining to securities trading by insiders are also available on the website. All transactions involving the Company's shares performed by the members of the Board of Directors and the Supervisory Board are published by the Company in accordance with the rules on disclosure, and the shareholdings in the Company of the executive officers of the Company (number of shares) are published in the Company's Annual Report.

The Board of Directors has assessed the effectiveness of information disclosure processes in 2017, and found them to be satisfactory.

1.7. Overview of the exercising of shareholders' rights

Participation in the General Meeting and voting rights

Shareholders may exercise their right of participation and their voting rights at the General Meeting, in person or by proxy.

The letters of proxy must be set forth in a notarised deed or a private deed of full probative force. In the event that a shareholder is represented at the General Meeting by its legal representative (e.g. director, managing director, mayor etc.), the authenticated deed issued by the court or court of registration concerning the right of representation, or a certificate testifying to the election of the mayor, must be presented at the venue of the General Meeting.

The letters of proxy must be handed over at the location specified in the invitation to the General Meeting, within the allotted time. The authorisation shall be valid only for a General Meeting or for a specified period not exceeding twelve months. Unless otherwise regulated, the authorisation shall be valid for the continuation of a suspended General Meeting and for re-convened General Meetings by reason of the lack of quorum. If the letter of proxy was issued outside Hungary, it must satisfy, in terms of its form, the statutory provisions pertaining to the authentication or counter-authentication of documents issued outside Hungary. Information on the subject can be obtained from the Hungarian representation offices abroad.

A condition of participation and voting in the General Meeting is that

- the shareholding as at the time of the ownership verification process is corroborated by the result of the ownership verification process;
- the owner of the shares be validly recorded in the Company's Share Register by the time of its closure as per point 8.4. of the Company's Articles of Association (hereinafter: Articles of Association); and
- the shareholder's shareholding or voting right does not violate the statutory provisions or the provisions of the Articles of Association, which the Company ascertains through a check following receipt of the result of a ownership verification process from KELER Central Depository Ltd. (hereinafter: KELER Zrt).

The rules on participation in the General Meeting and the exercising of voting rights on the part of GDR holders are contained in the Custody Agreement concluded between The Bank of New York and the Company.

Further details are contained in the Articles of Association published on our website.

1.8. Brief description of the rules related to the conducting of the General Meeting

The Company requests a ownership verification process for the date of the General Meeting (including any repeated General Meeting), as a corporate event, from KELER Zrt. The ownership verification process may take place only in the period between the 7th and 5th trading day at the stock exchange prior to the General Meeting (including any repeated General Meeting). The rules pertaining to the ownership verification process are set out in the latest effective regulations of KELER Zrt.

The Company, at 18:00 Budapest time on the second working day before the General Meeting (or repeated General Meeting), deletes all the data in the Share Register and at the same time registers the results of the ownership verification process in the Share Register, and closes it with the results of the shareholder identification. After this, any entry related to the shareholder's shareholding may only be made in the Share Register, at the earliest, on the working day following the closure of the General Meeting or following the day of the non-quorate General Meeting.

The General Meeting must be announced in the manner specified in respect of announcements made by the Company, at least 30 days before the projected date of the General Meeting, unless otherwise stipulated in the Civil Code and the Credit Institutions Act. The (extraordinary) General Meeting that is to decide on a capital increase necessary to avoid the proceeding referred to in Section 135 (2) of the Credit Institutions Act must be announced at least 10 days prior to the planned start date of the meeting.

The invitation must include the following:

a) the Company’s official name and registered office;
b) the date and place of the General Meeting;
c) the manner in which the General Meeting is to be held;
d) the agenda of the General Meeting;
e) the provisions contained in section 8.5 of the Articles of Association, with the reminder that shareholders may participate in and vote at the General Meeting only in compliance therewith;
f) information about the place and date of the handing over of the letters of proxy;
g) in the event that there is no quorum, the place and date of the reconvened General Meeting
h) the time of ownership verification process and closure of the Share Register,
i) the fact that in order to exercise shareholder’s rights at the General Meeting the shareholder must be listed in the Share Register at the time of its closure, but subsequent to this the shares may be freely traded without this affecting the ability to exercise shareholder’s rights at the General Meeting,
j) the conditions, stipulated in the Articles of Association, for exercising the shareholder’s right to request information,
k) the conditions, stipulated in the Articles of Association, for exercising the shareholder’s right to supplement the agenda of the General Meeting, and
l) information regarding the time, place and means (including the address of the Company's website) of accessing the motions and draft resolutions on the agenda of the General Meeting.

Questions not listed on the agenda may be discussed by the General Meeting only if all shareholders are present and they give their unequivocal consent thereto.

The General Meeting is regarded as having a quorum if the votes of the attending shareholders represent more than one-third of the total votes embodied by shares entitling the holder to vote.

If a duly convened General Meeting does not have a quorum, then the repeated General Meeting – convened for the time and date and venue specified in the announcement that is published in accordance with section 8.13 of the Articles of Association – shall have a quorum in respect of the agenda items set forth in the invitation irrespectively of the extent of the voting rights represented by those in attendance. If the agenda of the General Meeting includes a proposal relating to the withdrawal of the shares from any regulated market (hereinafter: delisting), then the repeated General Meeting shall have a quorum in respect of such agenda item if shareholders representing more than half of the votes embodied by the shares conferring voting rights are in attendance.

If a General Meeting that has a quorum cannot pass a resolution in respect of all the items on the agenda, it may decide to suspend the meeting and to convene a follow-up General Meeting, while indicating the new time and place. The General Meeting may only be suspended once, and the follow-up General Meeting must be held within 30 days of the suspension.

In respect of the quorum of a suspended and then reconvened General Meeting (follow-up General Meeting), the general rules apply. The follow-up General Meeting may pass decisions only in respect of the announced agenda items of the original General Meeting in respect of which the original General Meeting did not make a decision.

The General Meeting is chaired by the Chairman of the Board of Directors or another person designated by the Board of Directors who

- opens the General Meeting;
- appoints the person responsible for taking minutes;
- determines whether the General Meeting has a quorum;
- gives and revokes the right to speak;
- formulates draft resolutions and puts them to the vote;
- announces the result of the vote on the basis of the results indicated by the vote counters;
- announces the intermission; and
- closes the General Meeting.

Prior to the opening of the General Meeting, shareholders who have voting devices may notify the Chairman of the General Meeting in writing if they would like to speak in relation to any of the agenda items. The comments made by the shareholders may not be on a topic that is different from the designated agenda item. The Chairman of the General Meeting must grant the right to speak to persons who have indicated their desire to speak in accordance with the above.

The Chairman of the General Meeting may determine the order in which the comments on the given agenda item will be heard, may grant any person the right to speak or may retract such right, with the proviso that the right to speak may be retracted from a shareholder who has indicated his/her wish to speak in writing only if the shareholder's comments depart from the given agenda item despite a warning in this regard. The Chairman of the General Meeting may prohibit the recording in the minutes of comments that are made after the right to speak is retracted, and may remove the technical conditions (microphone) needed for making such comments.

The Chairman of the General Meeting may decide to hold the General Meeting in private, and, with the exception of the members of the Board of Directors, the managing directors specified in the Credit Institutions Act, the members of the Supervisory Board, the auditor, shareholders with voting terminals, and the representatives of such shareholders as well as the representatives of the MNB and the BSE, he may exclude anyone from attending the General Meeting.

The General Meeting passes its resolutions, unless the Articles of Association stipulate otherwise, through a simple majority of the votes of the attending shareholders.

Decisions at the General Meeting are made by open vote.

In its first resolution, the General Meeting selects, from the list proposed by the Chairman of the General Meeting, the attending shareholders who will act as the authenticator of the minutes and the vote counters. In the case of an unsuccessful vote the Chairman of the General Meeting must submit a new proposal.

Minutes must be taken of the General Meeting, which must include the following:

- the Company’s official name and registered seat;
- the date and place of the General Meeting and the manner in which it is held;
- data necessary for determining whether the General Meeting has a quorum and changes in the number of persons attending;
- the name of the Chairman of the General Meeting, the person taking the minutes, the authenticator of the minutes and the name of the vote counters;
- the most important events at the General Meeting and the proposals made;
- the draft resolutions, in the case of each resolution the number of shares with respect to which valid votes have been cast, the share represented by these votes in the share capital, the number of votes for and against the proposals and the number of those who abstained;
- objections to a resolution by any shareholder and any member of the Board of Directors or the Supervisory Board if the person objecting requests it himself.

The minutes are signed by the Chairman of the General Meeting and the person taking the minutes and are authenticated by an attending shareholder who has been selected for this purpose.

The Board of Directors must send the Company Court an authenticated copy of the minutes of the General Meeting within 30 days after the General Meeting is adjourned, together with the attendance register and the documents that certify that the General Meeting was properly convened.

Further details are contained in the Articles of Association published on our website.

1.9. Declaration on Remuneration

In compliance with the applicable European Union directive (CRD IV) and the provisions of the Credit Institutions Act and Financial Enterprises, the Bank’s General Meeting concluding the year 2016, its Board of Directors and Supervisory Board have provided for a review of the Remuneration Policy for the Bank and the Bank Group. In line with the national and EU legislative environment, the process of implementing the Bank Group's Remuneration Policy contains the methodological framework relating to the identification of activities and employees with a material impact on risk, which constitutes the basis for determining the group of persons subject to the Bank Group's Remuneration Policy, and the procedural rules relating to the annual evaluation process.

The purpose of the Bank Group’s Remuneration Policy is, remaining within the limits of the Bank Group's risk-bearing capacity, to recognise and provide motivational support for the achievement of Bank and Group-level results by the management and holders of key positions at the Bank, and the managers of subsidiaries in the Bank Group.

The Bank Group's Remuneration Policy applies to the members of the Board of Directors and Supervisory Board of the Bank and of the institutions (credit institutions and investment enterprises) operating within the Bank Group, and – among the staff in an employment relationship with the Bank and with the institutions operating within the Bank Group – the members of the management (Chairman & CEO and the deputies thereof), and managers who materially influence the risk profile and profit, managers who perform special management functions, as well as those managers whose salaries are in the same category as the salaries of the management of the given institution. The personal scope also covers the chief executives and deputy chief executives of those Bank Group Subsidiaries that are under consolidated supervision and that qualify as material business units relative to the Bank or the subsidiary institution concerned, as well as those employees employed by the Bank Group Subsidiaries under consolidated supervision, whose salaries are in the highest-earning 0.3% segment at the level of the Bank Group, the sub-consolidated group managed by the institution or of the institution concerned. Those managers whose impact on the risk profile is deemed to be material at Bank Group level fall under the consolidated-level personal scope, whereas managers whose impact on the risk profile is deemed to be material only at the level of the sub-consolidated group managed by the institution or at institution level fall under the sub-consolidated or local level personal scope. The resolution on the persons to whom the Bank Group’s Remuneration Policy applies is made by the Bank’s Supervisory Board.

The members of the Board of Directors and the Supervisory Board receive an honorarium of a fixed amount for their work in this capacity, and do not receive performance-based remuneration.

For the other personnel included in the scope of the Remuneration Policy, the remuneration is composed of fixed and performance-based components. The proportions of fixed and performance-based components of remuneration are determined by the Bank’s Supervisory Board based on the function, size and complexity of the unit being managed. The proportion of performance-based remuneration may not exceed 100% of fixed remuneration for any person concerned.

The most important basic principle of the Bank Group's Remuneration Policy is that the extent of performance-based remuneration – subject to a preliminary and retrospective assessment of the risks – depends on the extent to which Bank Group/Bank/Subsidiary-level and individual targets are met.

In the case of managers in an employment relationship with the Bank, the evaluation of performance, besides an assessment of the return on risk-weighted assets (RORAC) indicator for the given activity, is conducted on the basis of the criteria used to measure strategic and individual performance (financial indicators and indicators of the quality of work performance). In the case of managers at subsidiaries in the Bank Group the evaluation of performance takes place in a differentiated manner, in keeping with the characteristics of the companies' activities. The target values of the indicators are determined by the Bank’s Supervisory Board on the basis of the effective financial plan for the given year.

The performance evaluation-based, variable remuneration takes the form of a cash bonus and – where permitted by national legislation – remuneration in the form of shares or a preferentially-priced share award, in equal proportions. As a general rule, in the case of the consolidated-level personal scope, the share-based portion of the variable remuneration is provided to the employees concerned by the Bank, whereas within the personal scope identified at sub-consolidated and local level and within the Bank Group subsidiaries operating outside the European Union, remuneration is provided in the form of shares (payment of cash bonus in amounts adjusted to the share price at the given time).

Workers employed at the Bank or at OTP Jelzálogbank Zrt., OTP Lakástakarék Zrt. and Merkantil Bank Zrt., who come under the consolidated-level personal scope of the Bank Group's Remuneration Policy and who receive performance-based remuneration, are entitled, on a voluntary basis, up to the amount of the share-based portion of their performance-based remuneration, to acquire a membership share in OTP Bank's Employee Share Ownership Plan (ESOP) entity. The membership share in the ESOP entity is not fungible, may not be encumbered or pledged as collateral, and shall only guarantee actual settlement of the share award subject to the fulfilment of the conditions prescribed in the Remuneration Policy (result of performance assessment, retrospective assessment of risks). Any share of a member who does not meet the conditions for the award shall revert to the Bank.

In keeping with the Credit Institutions Act, within the personal scope identified at consolidated level, payment of 60% of the variable remuneration, whereas within the personal scope identified at sub-consolidated and local level, as a general rule, payment of 40 % of the variable remuneration, is staggered over a period of 3 years – in the case of the Bank's management for 4 years – during which period the deferred amount is determined annually in equal proportions. Eligibility to receive such deferred instalments is determined through a retrospective assessment of risks. The assessment of the risks is based both on quantitative criteria used to measure prudent operation, and on qualitative evaluation criteria. Based on the assessment of the risks related to the activities of the employees concerned, the deferred part of the performance-based remuneration may be reduced or withheld completely. A further prerequisite for entitlement to the deferred part is a continuing employment relationship.

The remuneration of the members of the Supervisory Board and the Board of Directors, which is determined in a resolution of the General Meeting, is public, while with respect to the Remuneration Policy, the Bank complies with its public disclosure obligation in accordance with the prevailing statutory provisions.

1.10. Evaluation of the work of the Board of Directors, the Supervisory Board and the management

In accordance with the expectations of the Supervisory Authority, the execution capabilities of the Board of Directors, the Supervisory Board and the management were evaluated with respect to the affected managers, in the framework of the 2017 annual performance evaluation. The evaluation was performed along the following dimensions: business thinking, business and operational development, governance, relationship and resource management, integrity and personal drive. Based on the results of the evaluation, no issue has arisen that would necessitate action.
Within the group of managers concerned, during the evaluated period – based on the conflicts of interest policy, code of ethics, or human risk criteria – no conflict of interest or issue relating to the independence of the managers has arisen.

1.11. Description of the diversity policy applied with respect to the undertaking's administrative, management and supervisory bodies

The Bank defines and regulates the requirements relating to executive officers in compliance with the requirements and guidelines under European Union and domestic law that fundamentally determine the operation of credit institutions.

When nominating the members of its management bodies (Board of Directors, Supervisory Board) the Bank, and when appointing the members of the Management, the Board of Directors, gives priority to the possession of professional expertise, advanced interpersonal and management skills, varied academic qualifications, wide-ranging business experience and good standing, but they are also strongly committed to taking effective steps to ensure diversity in connection with the Company's operation, including efforts to steadily improve the rate of participation by women.

In this spirit, the Bank's Nomination Committee constantly monitors the applicable European Union and domestic regulations, with the purpose of taking the necessary steps without delay should clearly expressed expectations be announced.

It should be borne in mind, however, that as a public limited company the election of members of the management bodies is the exclusive prerogative of the General Meeting, over which the Bank has no substantive influence beyond fully complying with the above criteria.

Pursuant to the Bank's Articles of Association, a Board of Directors with 5-11 members and a Supervisory Board with 5-9 members operate at the Bank. The present Board of Directors has 10 members, none of whom are female, while the Supervisory Board has 6 members, including one female member since 15 April 2016. The Bank's senior management currently consists of 6 persons, none of whom are women.

2.) CG Report on compliance with the Corporate Governance Recommendations

As part of the Corporate Governance (CG) Report, the Company states, by completing the following tables, the extent to which it has implemented the recommendations and guidances specified in the specific sections of the Corporate Governance Recommendations (hereinafter: CGR) of the Budapest Stock Exchange in its own corporate governance practice.
By looking at the tables, market participants are able to gain a quick insight into the extent to which the corporate governance practices of particular companies comply with certain requirements specified in the CGR, and to quickly compare the practices of various companies.

Level of compliance with the Recommendations

The company specifies whether it has applied the relevant recommendation or not, and if not, it describes briefly the reasons why a particular recommendation has not been implemented.

R 1.1.1 The Board of Directors has ensured that shareholders have access, in a timely manner, to the information required for exercising their rights.
Yes

R 1.1.2 The Company follows the "one share – one vote" principle
No
Each of the Company's ordinary shares ensures one voting right. In keeping with the stipulations of the Company's Articles of Association, voting rights depend specifically on the size of the shareholding.

R 1.2.8 The Company ensures that owners may participate in the General Meeting if they meet the same conditions.
Yes

R 1.2.9 Only those issues may be put on the General Meeting's agenda items that are accurately defined and described.
Yes

The draft resolutions comprised the recommendation of the Supervisory Board and included a detailed explanation of the effects that the decision would have if taken.
Yes

R 1.2.10 Shareholders' comments and addenda to the agenda items were published no later than two days before the General Meeting.
Yes

R 1.3.8 Comments made in respect of the agenda items of the General Meeting were available to the shareholders no later than at the time of registration.
Yes

Written comments in respect of the agenda items were published two working days before the General Meeting.
Yes

R 1.3.10 The election and recall of senior officers is made in a separate resolution in respect of each person.
Yes
R 2.1.1 The tasks of the Board of Directors include those specified in point 2.1.1.
Yes

R 2.3.1 The Board of Directors held meetings at pre-specified, regular intervals.
Yes

The Supervisory Board held meetings at pre-specified, regular intervals.
Yes

The rules of procedure of the Board of Directors contain provisions about conducting meetings that cannot be planned in advance and about making decisions through electronic media.
Yes

The rules of procedure of the Supervisory Board contain provisions about conducting meetings that cannot be planned in advance and about making decisions through electronic media.
Yes

R 2.5.1. The Company's Board of Directors / Supervisory Board has a sufficient number of independent members to ensure impartiality.
Yes

R 2.5.4 The Board of Directors / Supervisory Board regularly (in relation to the annual CG report) asked its members who are considered to be independent to confirm that they are independent.
Yes

R 2.5.6 The Company has published on its website its guidelines concerning the independence of the Board of Directors / Supervisory Board and the applied criteria of independence.
Yes

R 2.6.1 Members of the Board of Directors notified the Board of Directors (supervisory board / Audit Committee) if he/she (or a person who is closely related to him/her) had a material personal stake in any transaction of the Company (or any of its subsidiaries).
Yes

R 2.6.2 Transactions concluded between board and management members (and persons related to them) and the Company (or its subsidiary) were conducted in accordance with the regular business practices of the Company but on the basis of stricter rules of transparency than is customary in the course of regular business practices.
Yes

Transactions, specified in 2.6.2, which depart from regular business practices and the conditions thereof were accepted by the Supervisory Board (Audit Committee).
No
The Company prepared procedural rules for approving transactions that depart from usual business practices, and this ensures adequate control.

R 2.6.3 The board member informed the Supervisory Board / Audit Committee (Nomination Committee) if he/she was asked to act as a member on the board or in the management of a company that does not belong to the Group.
<u>Yes</u>

R 2.6.4 The Board of Directors created guidelines pertaining to the flow of information within the Company as well as the management of insider information and supervises compliance therewith.
<u>Yes</u>

The Board of Directors created guidelines pertaining to insider trading of securities and supervises compliance therewith.
<u>Yes</u>

R 2.7.1 The Board of Directors created remuneration guidelines for the remuneration and evaluation of the work of the Board of Directors, the Supervisory Board and the management.
<u>Yes</u>

The Supervisory Board commented on the remuneration guidelines.
<u>Yes</u>

The General Meeting approved the remuneration guidelines and the amendments thereto pertaining to the Board of Directors and the Supervisory Board in a separate agenda item.
<u>Yes</u>

R 2.7.2 The Board of Directors evaluated its own performance in a given business year.
<u>No</u>
The Company has a Nomination Committee, which has assessed the board's work. Also see section 1.10 of the report.

R 2.7.2.1 The Supervisory Board evaluated its own performance in a given business year.
<u>No</u>
The Company has a Nomination Committee, which has assessed the board's work. Also see section 1.10 of the report.

R 2.7.3 The supervision of the performance of the management and the remuneration of the management falls within the competence of the Board of Directors.
<u>Yes</u>

The framework of and changes in benefits that are due to the members of the management and are different from what is customary are approved by the General Meeting in a separate agenda item.
<u>Yes</u>

R 2.7.4 The General Meeting approved the principles of share-based remuneration schemes.
<u>Yes</u>

Prior to the decision by the General Meeting concerning share-based remuneration schemes the shareholders received detailed information (at least as described in point 2.7.4)
Yes

R 2.7.7 The Company has prepared a Declaration on Remuneration and presented it to the General Meeting.
No
In compliance with the applicable European Union directive (CRD IV) and the provisions of the Credit Institutions Act and Financial Enterprises, the Bank's General Meeting concluding the year 2016, its Board of Directors and Supervisory Board have provided for a review of the Remuneration Policy for the Bank and the Bank Group. In line with the national and EU legislative environment, the process of implementing the Bank Group's Remuneration Policy contains the methodological framework relating to the identification of activities and employees with a material impact on risk, which constitutes the basis for determining the group of persons subject to the Bank Group's Remuneration Policy, and the procedural rules relating to the annual evaluation process.

The purpose of the Bank Group's Remuneration Policy is, remaining within the limits of the Bank Group's risk-bearing capacity, to recognise and provide motivational support for the achievement of Bank and Group-level results by the management and holders of key positions at the Bank, and the managers of subsidiaries in the Bank Group.

The Bank Group's Remuneration Policy applies to the members of the Board of Directors and Supervisory Board of the Bank and of the institutions (credit institutions and investment enterprises) operating within the Bank Group, and – among the staff in an employment relationship with the Bank and with the institutions operating within the Bank Group – the members of the management (Chairman & CEO and the deputies thereof), and managers who materially influence the risk profile and profit, managers who perform special management functions, as well as those managers whose salaries are in the same category as the salaries of the management of the given institution. The personal scope also covers the chief executives and deputy chief executives of those Bank Group Subsidiaries that are under consolidated supervision and that qualify as material business units relative to the Bank or the subsidiary institution concerned, as well as those employees employed by the Bank Group Subsidiaries under consolidated supervision, whose salaries are in the highest-earning 0.3% segment at the level of the Bank Group, the sub-consolidated group managed by the institution or of the institution concerned. Those managers whose impact on the risk profile is deemed to be material at Bank Group level fall under the consolidated-level personal scope, whereas managers whose impact on the risk profile is deemed to be material only at the level of the sub-consolidated group managed by the institution or at institution level fall under the sub-consolidated or local level personal scope. The resolution on the persons to whom the Bank Group's Remuneration Policy applies is made by the Bank's Supervisory Board.

The members of the Board of Directors and the Supervisory Board receive an honorarium of a fixed amount for their work in this capacity, and do not receive performance-based remuneration.

For the other personnel included in the scope of the Remuneration Policy, the remuneration is composed of fixed and performance-based components. The proportions of fixed and performance-based components of remuneration are determined by the Bank's Supervisory Board based on the function, size and complexity of the unit being managed. The proportion of performance-based remuneration may not exceed 100% of fixed remuneration for any person concerned.

The most important basic principle of the Bank Group's Remuneration Policy is that the extent of performance-based remuneration – subject to a preliminary and retrospective assessment of the risks – depends on the extent to which Bank Group/Bank/Subsidiary-level and individual targets are met.

In the case of managers in an employment relationship with the Bank, the evaluation of performance, besides an assessment of the return on risk-weighted assets (RORAC) indicator for the given activity, is conducted on the basis of the criteria used to measure strategic and individual performance (financial indicators and indicators of the quality of work performance). In the case of managers at subsidiaries in the Bank Group the evaluation of performance takes place in a differentiated manner, in keeping with the characteristics of the companies' activities. The target values of the indicators are determined by the Bank's Supervisory Board on the basis of the effective financial plan for the given year.

The performance evaluation-based, variable remuneration takes the form of a cash bonus and – where permitted by national legislation – remuneration in the form of shares or a preferentially-priced share award, in equal proportions. As a general rule, in the case of the consolidated-level personal scope, the share-based portion of the variable remuneration is provided to the employees concerned by the Bank, whereas within the personal scope identified at sub-consolidated and local level and within the Bank Group subsidiaries operating outside the European Union, remuneration is provided in the form of shares (payment of cash bonus in amounts adjusted to the share price at the given time).

Workers employed at the Bank or at OTP Jelzálogbank Zrt., OTP Lakástakarékpénztár Zrt. and Merkantil Bank Zrt, who come under the consolidated-level personal scope of the Bank Group's Remuneration Policy and who receive performance-based remuneration are entitled, on a voluntary basis, up to the amount of the share-based part of their performance-based remuneration, to acquire a membership share in OTP Bank's Employee Share Ownership Plan (ESOP) entity. The membership share in the ESOP entity is not fungible, may not be encumbered or pledged as collateral, and shall only guarantee actual settlement of the share award subject to the fulfilment of the conditions prescribed in the Remuneration Policy (result of performance assessment, retrospective assessment of risks). Any share of a member who does not meet the conditions for the award shall revert to the Bank.

In keeping with the Credit Institutions Act, within the personal scope identified at consolidated level, payment of 60% of the variable remuneration, whereas within the personal scope identified at sub-consolidated and local level, as a general rule, payment of 40 % of the variable remuneration, is staggered over a period of 3 years – in the case of the Bank's management for 4 years – during which period the deferred amount is determined annually in equal proportions. Eligibility to receive such deferred instalments is determined through a retrospective assessment of risks. The assessment of the risks is based both on quantitative criteria used to measure prudent operation, and on qualitative evaluation criteria. Based on the assessment of the risks related to the activities of the employees concerned, the deferred part of the performance-based remuneration may be reduced or withheld completely. A further prerequisite for entitlement to the deferred part is a continuing employment relationship.

The remuneration of the members of the Supervisory Board and the Board of Directors, which is determined in a resolution of the General Meeting, is public, while with respect to the Remuneration Policy, the Bank complies with its public disclosure obligation in accordance with the prevailing statutory provisions.

The Declaration on Remuneration contains the remuneration of certain members of the Board of Directors, the Supervisory Board, and the management.
No
See the previous point.

R 2.8.1 The Board of Directors or the committee operated by it is responsible for the supervision and direction of the Company's entire risk management operations.
Yes

The Board of Directors verifies the efficiency of risk management procedures at specific intervals.
Yes

The Board of Directors took the necessary steps to identify key risk areas.
Yes

R 2.8.3 The Board of Directors formulated the principles pertaining to the internal control system.
Yes

The internal control system, which has been established by the management, ensures that the risks to which the Company is exposed are managed and that the Company's objectives are attained.
Yes

R 2.8.4 When formulating the internal control system, the Board of Directors took into account the criteria specified in point 2.8.4.
Yes

R 2.8.5 The management is responsible for establishing and maintaining the internal control system.
Yes

R 2.8.6 The company created an independent internal audit function, which is under obligation to report to the Audit Committee / Supervisory Board.
Yes

The internal audit group reported, at least once, to the Audit Committee / Supervisory Board about the operation of risk management, the internal control mechanisms, and the corporate governance functions.
Yes

R 2.8.7 The internal audit activity is performed by internal audit on the basis of a mandate given by the Audit Committee / Supervisory Board.
Yes

Internal audit is organisationally separate from operative management.
Yes

R 2.8.8 The internal audit plan was approved by the Board of Directors (Supervisory Board) upon the recommendation of the Audit Committee.
Yes

R 2.8.9 The Board of Directors prepared a report for shareholders on the operation of internal controls.
Yes

R 2.8.10 The Board of Directors formulated its rules of procedure in respect of receiving and processing reports on the operation of internal controls and preparing its own reports.
Yes

R 2.8.11 The Board of Directors identified the key deficiencies of internal controls and reviewed and re-evaluated the relevant activities.
Yes

R 2.9.2 The Board of Directors, the Supervisory Board and the Audit Committee were notified when the auditor's mandate, by its nature, may have incurred considerable expenditure, may have given rise to a conflict of interest or may have had any other material impact on business operations.
Yes

R 2.9.3 The Board of Directors notified the Supervisory Board if it gave a mandate to an audit company or an external audit expert in respect of an event that has a material impact on the Company's operation.
Yes

The Board of Directors specified in advance, in a resolution, the events that may be considered to have a material impact on the Company's operation.
No
In 2017 the Board of Directors did not pass a resolution in this matter.

R 3.1.6 The company published on its website the tasks delegated to the Audit Committee, and the committee's objectives, rules of procedure and composition (specifying the members' names, a brief CV and the date of appointment).
No
OTP Bank Plc. has established and operates an Audit Committee, which supports the work of the Supervisory Board, and the Bank has published the names of the members, each with a brief CV. The tasks delegated to the Audit Committee and the Committee's objectives are public and available in the Articles of Association and in the Corporate Governance Report. The Audit Committee's rules of procedure are not in the public domain.

R 3.1.6.1 The company published on its website the tasks delegated to the Nomination Committee, and the committee's objectives, rules of procedure and composition (specifying the members' names, a brief CV and the date of appointment).
No
OTP Bank Plc. has established and operates a Nomination Committee, which supports the work of the Supervisory Board, and the Bank has published the names of the members, each with a brief CV. The tasks delegated to the Nomination Committee and the Committee's objectives are public and available in the Corporate Governance Report. The Nomination Committee's rules of procedure are not in the public domain.

R 3.1.6.2 The company published on its website the tasks delegated to the Remuneration Committee, and the committee's objectives, rules of procedure and composition (specifying the members' names, a brief CV and the date of appointment).
Yes

R 3.2.1 The Audit Committee / Supervisory Board oversaw the effectiveness of risk management, the operation of the internal control system and the internal audit activity.
Yes

R 3.2.3 The Audit Committee / Supervisory Board received accurate and detailed information about the work schedule of the internal auditor and the independent auditor, and received a copy of the report by the auditor on the problems identified during the audit.
Yes

R 3.2.4 The Audit Committee / Supervisory Board asked the new nominee for auditor to submit a disclosure declaration as specified in 3.2.4.
Yes

R 3.3.1 The Company has a Nomination Committee.
Yes

R 3.3.2 The Nomination Committee prepares the way for changes in personnel.
Yes
For managers who are subject to the authority of the Nomination Committee.

The Nomination Committee reviewed the procedures pertaining to the selection and appointment of the members of the management.
Yes

The Nomination Committee evaluated the activities of board members and the members of the management.
Yes

The Nomination Committee examined all proposals concerning the nomination of board members that were proposed by the shareholders or by the Board of Directors.
Yes

R 3.4.1 The Company has a Remuneration Committee.
Yes

R 3.4.2 The Remuneration Committee has submitted a proposal regarding the remuneration system of the boards and the management (amount and structure of remuneration for each person), and oversees this process.
Yes

R 3.4.3 The remuneration of the management has been approved by the Board of Directors based on the proposal of the Remuneration Committee.
Yes

The remuneration of the Board of Directors is approved by the General Meeting upon the recommendation of the Remuneration Committee.
Yes

The Remuneration Committee has also checked the system of share options, cost reimbursements and other contributions.
Yes

R 3.4.4 The Remuneration Committee formulated proposals with regard to the principles of remuneration.
Yes

R 3.4.4.1 The Remuneration Committee formulated proposals with regard to the remuneration of individual persons.
Yes

R 3.4.4.2 The Remuneration Committee reviewed the terms and conditions of contracts that were concluded with the management.
No
A review of the terms of contracts concluded with members of the management does not fall within the remit of the Remuneration Committee.

R 3.4.4.3 The Remuneration Committee checked if the Company has satisfied the obligation of disclosure regarding executive remuneration issues.
Yes

R 3.4.7 The majority of the members of the Remuneration Committee are independent.
Yes

R 3.5.1 The Board of Directors has disclosed its reasons for merging the Remuneration and the Nomination Committee.
No
The Company operates both a Remuneration Committee and a Nomination Committee.

R 3.5.2 The Board of Directors performed the tasks of the Nomination Committee and issued a statement on its reasons for doing so.
No
The Nomination Committee performed its own tasks.

R A 3.5.2.1 The Board of Directors performed the tasks of the Remuneration Committee and issued a statement on its reasons for doing so.
No
The Remuneration Committee performed its own tasks.

R 4.1.1 The Board of Directors, in its disclosure guidelines, has determined the principles and procedures that ensure that all material information that has a significant bearing on the Company and on the price of its shares is published and is accessible accurately, in full and in good time.
Yes

R 4.1.2 In the course of providing information, the Company has ensured that all shareholders and market participants receive equal treatment.
Yes

R 4.1.3 The Company's disclosure guidelines include electronic and internet disclosure procedures.
Yes

The Company's website has been created with due regard to the disclosure guidelines, and with a view to providing appropriate information to investors.
Yes

R 4.1.4 The Board of Directors has assessed the effectiveness of disclosure processes.
Yes

R 4.1.5 The Company publishes its corporate events calendar on its website.
Yes

R 4.1.6 The Company, in its annual report and on its website, has provided information to the public about its strategic goals and about its guidelines related to its core activity, business ethics and its various stakeholders.
Yes

R 4.1.8 The Board of Directors has stated in its annual report the other mandates, together with the type and volume of such mandates, that the entity that audits the Company's annual financial statements has received from the Company and its subsidiaries.
Yes

R 4.1.9 The Company, in its annual report and on its website, has disclosed information pertaining to the professional careers of members of the Board of Directors, the Supervisory Board and the management.
Yes

R 4.1.10 The Company provided information about the internal organisation and operation of the Board of Directors and the Supervisory Board.
Yes

R 4.1.10.1 The Company provided information about the work of the Board of Directors and the Management Committee, and the criteria applied when evaluating the individual members.
Yes

R 4.1.11 The Company has published in its annual report and on its website a Declaration on Remuneration, which describes the remuneration guidelines used and, specifically, the guidelines pertaining to the remuneration of members of the Board of Directors, the Supervisory Board and the management.
No
See the comments under point 2.7.7 above.

R 4.1.12 The Board of Directors has published risk management guidelines which discuss the internal control system, and the risk management principles and rules, and provide an overview of major risks.
Yes

R 4.1.13 In order to provide information to market participants, the Company publishes its report on corporate governance once a year, when the annual report is published.
Yes

R 4.1.14 The Company publishes on its website the guidelines pertaining to securities trading in respect of the Company's shares by persons classified as insiders.
Yes

The Company, in its annual report and on the Company's website, has disclosed information about the stakes held in the Company's securities and in its share-based incentive system by members of the Board of Directors, the Supervisory Board and the management.
Yes

R 4.1.15 The Company has published in the annual report and on the Company's website the relationship of members of the Board of Directors and the management with any third parties that may have an impact on the Company's operation.
Yes

Level of compliance with the guidances

The Company must specify whether it applies the relevant guidance of the CGR or not.
Yes

G 1.1.3 The Company has an organisational unit that deals with investor relations.
Yes

G 1.2.1 The Company has published on its website the summary related to its General Meetings and shareholder voting rights (including voting by proxy).
Yes

G 1.2.2 The Company's Articles of Association are accessible on the Company's website.
Yes

G 1.2.3 The Company's website contains the information specified in point 1.2.3 (regarding the cut-off date in respect of corporate events).
Yes

G 1.2.4 The Company has published on its website the information and documents regarding the General Meeting as specified in point 1.2.4 (invitation, proposals, draft resolutions, resolutions, minutes).
Yes

G 1.2.5 The Company held its General Meeting by ensuring that as many shareholders can attend as possible.
Yes

G 1.2.6 The Company published the addenda to the agenda items within five days of their receipt, in a manner that is identical to the manner of publishing the original invitation to the General Meeting.
Yes

G 1.2.7 The voting procedure used by the Company ensured that the decision by the owners is determined unequivocally, clearly and quickly.
Yes

G 1.2.11 The Company, upon the shareholders' request, forwarded information pertaining to the General Meeting electronically as well.
Yes

G 1.3.1 The Company's General Meeting accepted the chairman of the General Meeting prior to the actual discussion of the agenda items.
No

G 1.3.2 The Board of Directors and the Supervisory Board were represented at the General Meeting.
Yes

G 1.3.3 The Company's Articles of Association allow the invitation of a third party to the Company's General Meetings upon the initiative of the Chairman of the Board of Directors or the shareholders of the Company, and such third party may participate with advisory right and comment on the relevant agenda item.
Yes

G 1.3.4 The Company did not restrict the right of owners who participate in the General Meeting to ask for information, to comment and to submit a motion and did not set any preconditions in respect of such right.
Yes

G 1.3.5 The Company published on its website within three days its responses to questions that it was unable to answer satisfactorily at the General Meeting. The Company published an explanation in respect of questions that it refused to answer.
Yes

G 1.3.6 The Chairman of the General Meeting and the Company ensured that responses to questions asked at the General Meeting did not violate any statutory or stock exchange regulations pertaining to the provision of information and disclosure and ensured that such provisions are observed.
Yes

G 1.3.7 The Company published a press release and/or held a press conference about the decisions of the General Meeting.
Yes

G 1.3.11 The Company's General Meeting makes decisions about amendments to the Articles of Association in separate resolutions.
Yes

G 1.3.12 The Company published the minutes of the General Meeting containing the Company's resolutions, the description of the draft resolutions and all material questions and answers concerning the draft resolutions within 30 days after the General Meeting.
Yes

G 1.4.1 The Company, within 10 working days, paid dividends to shareholders who have provided all necessary information and documents.
Yes

G 1.4.2 The Company published its guidelines concerning solutions for preventing hostile takeovers directed at the Company.
No

G 2.1.2 The rules of procedure of the Board of Directors contain the organisational structure of the Board of Directors, tasks related to the preparation and execution of the meetings and the formulation of resolutions and other issues related to the operation of the Board of Directors.
Yes

G 2.2.1 The Supervisory Board provides a detailed description in its rules of procedure and work plan of the operation and tasks of the board, as well as of the administrative rules and procedures that the Supervisory Board follows.
Yes

G 2.3.2 The board members had access to the proposals of the given meeting at least five days before the given meeting.
Yes

G 2.3.3 The rules of procedure stipulate the regular and occasional participation in the board meetings of non-board members.
Yes

G 2.4.1 The members of the Board of Directors were selected in a transparent manner, and information pertaining to the candidates were disclosed at least five days before the General Meeting.
Yes

G 2.4.2 The composition and headcount of the boards complies with the stipulations of point 2.4.2.
Yes

G 2.4.3 In the orientation program of the Company, newly elected non-executive board members were able to learn about the structure and operation of the Company and their tasks as board members.
Yes

G 2.5.2 The division of the tasks of the chairman and the CEO is stipulated in the key documents of the Company.
Yes

G 2.5.3 The Company provided information about how it ensures that the Board of Directors remains objective in its evaluation of the management activities in the event that the position of Chairman & CEO is combined.
No

G 2.5.5 No member of the Company's Supervisory Board held a position on the Company's Board of Directors or in the management in the three years prior to his/her nomination.
No

G 2.7.5 The remuneration policy of the Board of Directors, the Supervisory Board and the management serves the purposes of the Company and therefore the strategic objectives of shareholders.
Yes

G 2.7.6 Members of the Supervisory Board receive a fixed remuneration no portion of which is tied to the share price.
Yes

G 2.8.2 The Board of Directors elaborated risk management principles and basic rules together with the members of the management who are responsible for planning, operating and supervising risk management processes and for the incorporation thereof into the Company's daily operation.
Yes

G 2.8.10 When evaluating the internal control system, the Board of Directors took into account the criteria specified in point 2.8.10.
Yes

G 2.8.12 The Company's auditor assessed and evaluated the Company's risk management systems and the risk management activities of the management and submitted a relevant report to the Audit Committee / Supervisory Board.
Yes

G 2.9.1 The rules of procedure of the Board of Directors include the procedure to be followed when the services of an external consultant are used.
Yes

G 2.9.1.1 The rules of procedure of the Supervisory Board include the procedure to be followed when the services of an external consultant are used.
Yes

G 2.9.1.2 The rules of procedure of the Audit Committee include the procedure to be followed when the services of an external consultant are used.
Yes

G 2.9.1.3 The rules of procedure of the Nomination Committee include the procedure to be followed when the services of an external consultant are used.
Yes

G 2.9.1.4 The rules of procedure of the Remuneration Committee include the procedure to be followed when the services of an external consultant are used.
Yes

J 2.9.4 The Board of Directors may invite the Company's auditor to attend its meetings where the agenda items of the General Meeting are discussed, with advisory right.
Yes

G 2.9.5 The Company's internal audit organisation cooperated with the auditor in order to ensure the effective execution of the audit.
Yes

G 3.1.2 The Chairman of the Audit Committee regularly informs the Board of Directors of the individual meetings of the committee, and the committee prepares at least one report each business year for the management body and the Supervisory Board.
No

G 3.1.2.1 The Chairman of the Nomination Committee regularly informs the Board of Directors of the individual meetings of the committee, and the committee prepares at least one report each business year for the management body and the Supervisory Board.
Yes

G 3.1.2.2 The chairman of the Remuneration Committee regularly informs the Board of Directors of the individual meetings of the committee, and the committee prepares at least one report each business year for the management body and the Supervisory Board.
Yes

G 3.1.4 The Company's committees consist of members who have appropriate abilities, expertise and experience for carrying out their tasks.
Yes

G 3.1.5 The rules of procedure of the Company's committees contain the stipulations specified in point 3.1.5.
Yes

G 3.2.2 The members of the Audit Committee / Supervisory Committee received comprehensive information on the Company's accounting, financial and operating characteristics.
Yes

G 3.3.3 The Nomination Committee prepared at least one evaluation for the chairman of the Board of Directors about the operation of the Board of Directors and the work and performance of individual members of the Board of Directors.
<u>Yes</u>

G 3.3.4 The majority of the members of the Nomination Committee is independent.
<u>Yes</u>

G 3.3.5 The Nomination Committee's rules of procedure include the stipulations specified in point 3.3.5.
<u>No</u>

G 3.4.5 The Remuneration Committee ensures that a declaration on remuneration is prepared.
<u>No</u>

G 3.4.6 The Remuneration Committee consists only of the non-executive members of the Board of Directors.
<u>Yes</u>

G 4.1.4 The Company's disclosure guidelines include at least the stipulations set out in point 4.1.4.
<u>Yes</u>

In the annual report the Board of Directors informs shareholders of the results of its study concerning the effectiveness of disclosure processes.
<u>Yes</u>

G 4.1.7 The Company prepares its financial statements in accordance with IFRS principles.
<u>Yes</u>

G 4.1.16 The Company prepares and publishes its statements in English as well.
<u>Yes</u>

RESOLUTION PROPOSAL No. 2/2018

The Annual General Meeting approves OTP Bank Plc.'s 2017 Report on Corporate Governance.

EVALUATION OF THE ACTIVITY OF THE EXECUTIVE OFFICERS PERFORMED IN THE PAST BUSINESS YEAR; DECISION ON THE GRANTING OF DISCHARGE OF LIABILITY

Based on Act V of 2013 on the Civil Code, and in accordance with the provisions of the Articles of Association of OTP Bank Plc., the supreme governance body of the company each year puts on the agenda the evaluation of the activity performed by the members of the Board of Directors in the reporting year, and passes a resolution on whether to grant them discharge from liability.

The **Board of Directors** of OTP Bank Plc. is the body, consisting of senior officers, that conducts the executive management of the Bank.

The Supervisory Board of OTP Bank Plc., as part of this proposal, and in connection with the annual financial statements prepared in accordance with the Accounting Act, has made a recommendation to the General Meeting on the evaluation of the work of the members of the Board of Directors in the previous financial year, and on granting to them of discharge from liability.

In the course of 2017 OTP Bank Plc.'s Supervisory Board, in fulfilment of its duties stipulated in the relevant statutory provisions and the Articles of Association, monitored the activity of the executive management, and continuously received a briefing on the Bank Group's latest financial position and business activity.

The Supervisory Board, on the basis of the documents placed at its disposal and the proposals presented to it, and following the personal participation of the Chairman of the Supervisory Board at the meetings of the Board of Directors, hereby finds as follows:

- In the course of the past year the Board of Directors of OTP Bank Plc. met regularly in accordance with its work schedule based on the mandatory topics stipulated in the law, the provisions of the Articles of Association, the Bank's business-policy plan and its operating procedures; it adopted resolutions and decisions, and then monitored their implementation.

- The Board of Directors of OTP Bank Plc., as prescribed by the provisions of the Act on Credit Institutions and Financial Enterprises and the laws on accounting, and in accordance therewith, has drafted, and prepared for approval by the General Meeting, the Bank's annual financial statements and consolidated annual financial statements.

During the 2017 General Meeting, the Supervisory Board personally ascertained that

- The Board of Directors reported on the Bank's business activity and results achieved in 2016,

- The Board of Directors, in compliance with its statutory obligation, presented its Corporate Governance Report reviewed and approved by the Supervisory Board, together with the financial statements prepared in accordance with the Accounting Act, to the General Meeting.

- After a preliminary review by the Supervisory Board, the Board of Directors presented to the General Meeting its proposal regarding the amendment of the Bank's Articles of Association.

The Supervisory Board has ascertained that

- Pursuant to the Act on the Civil Code, the Board of Directors has arranged for the publication of the Bank's consolidated and stand-alone financial statements for the year 2016, and of the material data from the reports of the Board of Directors and Supervisory Board.

- Based on the Act on Credit Institutions and Financial Enterprises and on the Regulation of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and the amendment of the relevant EU Regulation, the Board of Directors has fulfilled its disclosure obligation regarding the publication of information intended for public disclosure, as part of which it provided information in relation to its corporate governance system and remuneration policy as well.

The Supervisory Board found that,

- in keeping with the Corporate Governance Recommendations of the Budapest Stock Exchange, the Board of Directors of OTP Bank Plc. held a review of the effectiveness of its public disclosure processes, and found it to be adequate.

  The Supervisory Board shares the opinion of the Board of Directors of OTP Bank Plc, according to which, among the corporate governance requirements, particular importance is ascribed to the transparency of the Company's operations, and *the public disclosure practices* followed by the Company have a profound impact on how the Company is perceived. The provision of information that accurately reflects the effectiveness of the Company's operation is of strategic importance, as it may reinforce the confidence of shareholders and other stakeholders in the Company. In order for shareholders, mortgage-bond investors and other players in the money and capital markets to be able to assess the Company's operation, the provision of regular, reliable and comparable information is essential.

  Besides observing the statutory provisions relevant to the Company, such as the Act on Credit Institutions and Financial Enterprises, the Act on the Civil Code, the Act on the Capital Market, the Act on Investment Firms and Commodity Dealers and the Regulations Governing their Activities and Ministry of Finance Decree 24/2008 (VIII. 15), as well as the provisions of the Budapest Stock Exchange, the Board of Directors, together with the management, ensures that the *procedures related to the disclosure of corporate information* are – as far as possible – *in compliance with the Corporate Governance Recommendations*.

- The Board of Directors found that the Bank has, in compliance with the statutory provisions and the established practice, prepared a Report presenting its Corporate Governance practice for 2016 as well.

  In its Corporate Governance Report, presented to the 2017 annual General Meeting, the Board of Directors summarised the corporate governance practice applied in the previous business year, and made a declaration *on any deviations from the Corporate Governance Recommendations of the Budapest Stock Exchange.*

  OTP Bank Plc. regards *the maintenance* of an advanced *corporate governance system* that conforms to local and international standards as being of primary importance. A reliable governance system, accurate financial planning, responsible management and the appropriate control mechanisms provide a stable basis for efficient and profitable operation.

  OTP Bank Plc. continuously monitors, reviews and develops its corporate governance practices, identifying any deficiencies that might arise from external and internal changes, and implements the modifications that best serve the fulfilment of our objectives.

  The appropriate corporate governance practice is one of the key elements in ensuring the achievement of strategic objectives. Within the statutory parameters, the corporate governance system of OTP Bank has been developed in a way that simultaneously ensures and strengthens the confidence and satisfaction of our customers, growth in shareholder value, and socially responsible corporate conduct. The governance structure adjusted to these objectives reflects the specific characteristics of our activity, as well as the statutory, supervisory and stock-exchange requirements that apply to the Bank, and besides this, it also aims *to comply with the guidelines of the Budapest Stock Exchange*.

The activities of OTP Bank Plc. are, to a high degree, regulated by statutory provisions, and consequently not only certain business activities, but operations as a whole are regulated in detail and monitored by the authorities on a continuous basis.
Some of the Bank's internal control functions (risk management, compliance, and internal audit) conform to strict standards, and the Bank is capable of attesting to their effectiveness both within the internal corporate governance system, and also to the satisfaction of the external supervisory authorities. All these factors assure purposeful, comprehensive and controlled risk management procedures, as well as reliable and appropriately supervised data reporting. In the course of its provision of financial and investment services OTP Bank pursues complex and effective corporate governance practices that simultaneously ensure responsible conduct towards clients and shareholders, reliable operation, and long-term profitability.

The Supervisory Board found that OTP Bank Plc.'s operation fully complies with the provisions of the relevant statutory regulations, the decrees of the supervisory authorities and the regulations of the Budapest Stock Exchange.

<u>In addition to the above, in the past business year the Board of Directors of OTP Bank Plc.</u>

Monitored

- the statements contained in the reports of the management,
- the development of the Bank's results, based on the quarterly interim reports and the financial statements approved by the auditor,
- compliance with the provisions of the Credit Institutions Act,
- the quarter-to-quarter development of the quality of the Bank Group's portfolio,
- new commitments where the transaction value exceeded three billion forints,
- risk exposures above HUF 1 billion and impaired by at least 10%
- the latest issues related to the Bank's operation and activity.

Made decisions

- on the capital positions of the individual subsidiaries and companies within its scope of interest, and
- on the purchase and sale of shareholdings, as well as
- in relation to the reviewing of limits, and
- on the setting and modification of customer limits and counterparty limits,
- on the granting of authorisations to sign on behalf of the Company.

Also made a decision

- on the approval of regulations that fundamentally define the Bank's operation, and those referred to its authority under the Credit Institutions Act.
  These included, among others, the Organisational and Operational Regulations, and the Risk Assumption, Risk Management, Customer Rating, Investment, and Procuration regulations.

- on the proposal regarding the amendment of OTP Bank Plc.'s Internal Audit Policy and on the acceptance of the Conflict of Interest Regulations, the Operational Risk Management Regulations, OTP's individual and group-level market risk management regulation and the Bank Group's Governance Regulations and Personal Transactions Regulations, as well as any regulations not specifically mentioned in the statutory provisions.
- on the contents of the Outsourcing Policy and the related regulatory documents,
- on OTP Bank's marketing and communications strategy (2017-2020),
- on the medium-term strategy of the Retail sales channels,
- on compliance with the New Consumer Protection Recommendations at OTP Bank and on the proposals for the introduction of the "New Product Policy",
- on the supplementation of the New Product Policy to ensure MIFID II compliance,
- on the review of its tasks set out in the regulations on the Internal Audit Directorate of OTP Bank Plc. in the interest of complying with the new provisions of the Credit Institutions Act, and on compliance with the requirements relating to the internal auditor and with the requirements in respect of the IT and other technical resources to be placed at the auditor's disposal
- on the contents of the report regarding the review of the operation of the Remuneration Policy of OTP Bank Plc. and the Bank Group in 2016.

Accepted

- the Lending Policy of the Hungarian operation (OTP Bank, Merkantil Bank, Ingatlanlízing, Lakástakarék) for 2017,
- the contents of the proposal for the convergence of OTP Bank Plc's medium-term IT strategy with the agile bank projects,
- the contents of the report on the achievement of the business policy objectives of the savings and private banking divisions, and the proposals for the main strategic directions for the 2017-2022 period ,
- the report on OTP Group's operational risk management activities in 2016,
- the report on the status of the implementation of the IT strategy,
- the OTP Group's recovery plan, as well as the submission thereof to the MNB as the overall supervisory authority,
- the report on the OTP Group's internal capital adequacy assessment process, and
- the contents of the proposal for the "Complaint Management Policy".

Discussed proposals relating to the following:

- the financial statements and proposals presented to the annual ordinary General Meeting,
- the Bank's financial statements and auditor's reports for 2016,
- the Corporate Governance Report (in respect of the year 2016),
- the remuneration guidelines of OTP Bank Plc., belonging to the decision-marking powers of the General Meeting,
- the report on the acquisition of treasury shares,
- every quarter, the bank group-level reports on the completed audits of the auditing units,
- on the compliance and security situation of OTP Bank Plc. and the foreign subsidiary banks, and
- every quarter, the consolidated and group-member controlling reports, and
- the 2018 business, financial and strategic plan of OTP Bank Plc. and the Bank Group.

Received a briefing

- on the activity of the Remuneration Committee in 2016, as well as on the implementation and annual review of the operation of the remuneration policy of OTP Bank Plc. and the Bank Group in 2016, and on the amendment of the Remuneration Policy,
- on the group members' reports for 2016,
- on the activity and performance of DSK Bank EAD,
- on the status of Touch Bank's business project and the status of the implementation of OTP Bank's Russia strategy,
- on the findings of the assessment of compliance with the requirements prescribed for the members of OTP Bank Plc.'s management bodies and for the activities of these bodies, as well as for the executive officers and key function holders of the Bank, in the 2016 business year,
- on the amendment of the Remuneration Policy of the OTP Bank ESOP Entity,
- on the basic principles of the 2018 incentives system, the main performance evaluation criteria, and the indicators of the senior managers that are subject to the remuneration policy.
- on the findings related to the management of customer complaints, on the consumer protection audits of the MNB, as well as on customer complaints received by the foreign subsidiaries,
- on the performance of the tasks contained in the action plan created following the MNB audits, and
- on the contents of the report prepared on the bank-group level audit.

The Supervisory Board of OTP Bank Plc. assesses that in the course of 2017 the Bank's Board of Directors fulfilled its duties prescribed in the relevant statutory provisions and in the Articles of Association of OTP Bank Plc., as per the details presented in the foregoing. In the course of its operation, it performed its work with a view to preserving shareholder value and in accordance with the Company's interests.

The Supervisory Board recommends that, following an assessment of their activity conducted in the past business year, the General Meeting grant the members of the Board of Directors discharge from liability.

RESOLUTION PROPOSAL No. 3/2018

The Annual General Meeting, based on its assessment of the work of the executive management in the 2017 business year, certifies that the executive management gave priority to the interests of the Company when performing its work during the business year.

ELECTION OF THE COMPANY'S AUDIT FIRM, THE DETERMINATION OF THE AUDIT REMUNERATION, AND DETERMINATION OF THE SUBSTANTIVE CONTENT OF THE CONTRACT TO BE CONCLUDED WITH THE AUDITOR

In accordance with the decision of the Annual General Meeting, Deloitte Auditing and Consulting Ltd. audited OTP Bank Plc. for the year 2017. They audited not only the separate financial statements and the consolidated financial statements in accordance with International Financial Reporting Standards for the year ended 2017, but also successfully helped the preparations of separate and consolidated quarterly non-audited financial statements and performed the audit of the interim financial statement and the annual financial statements. Accordingly, we propose to charge Deloitte Auditing and Consulting Ltd. in 2018 with the audit procedures. We suggest to approve the remuneration with an increase of 2.3% compared to the previous period.

In connection with the audit of OTP Bank Plc.'s separate and consolidated annual financial statements prepared in accordance with International Financial Reporting Standards for the year 2018, and according to section 152. paragraph (3) (b) of 2013. CCXXXVII Act on Credit Institutions and Financial Enterprises, in the name of the Supervisory Board I suggest the following:

1. Audit Firm:	Deloitte Auditing and Consulting Ltd. (000083)
	Budapest, Dózsa György. u. 84/c.
	1068
Independent Auditor:	dr. Attila Hruby
	(Registration number: 007118)
In case of insuperable hindrance:	Tamás Horváth
	(Registration number: 003449)

2. The total fee of auditing for the audit of the separate and consolidated annual financial statements for the year 2018, prepared in accordance with International Financial Reporting Standards.

HUF 65,300,000 + VAT

From this:

Audit fee of the separate annual accounts:	HUF 51,900,000 + VAT
Audit fee of the consolidated annual accounts:	HUF 13,400,000 + VAT

RESOLUTION PROPOSAL No. 4/2018

Concerning the audit of OTP Bank Plc.'s separate and consolidated annual financial statements in accordance with International Financial Reporting Standards for the year 2018, the Annual General Meeting is electing Deloitte Auditing and Consulting Ltd. (000083, H-1068 Budapest, Dózsa György út 84/c) as the Bank's auditor from 1 May 2018 until 30 April 2019.

The Annual General Meeting approves the nomination of dr. Attila Hruby (No. 007118 chartered auditor) as the person responsible for auditing. In case any circumstance should arise which ultimately precludes the activities of dr. Attila Hruby as appointed auditor in this capacity, the Annual General Meeting proposes the appointment of Tamás Horváth (No. 003449 chartered auditor) to be the individual in charge of auditing.

The Annual General Meeting establishes the total amount of HUF 65,300,000 + VAT as the Auditor's remuneration for the audit of the separate and consolidated annual financial statements for the year 2018, prepared in accordance with International Financial Reporting Standards. Out of total remuneration, HUF 51,900,000 + VAT shall be paid in consideration of the audit of the separate annual accounts and HUF 13,400,000 + VAT shall be the fee payable for the audit of the consolidated annual accounts.

PROPOSAL ON THE AMENDMENT OF ARTICLE 5 SECTION 7, ARTICLE 6 SECTION 4, ARTICLE 8 SECTION 4, ARTICLE 13 SECTION 3, ARTICLE 13 SECTION 4, ARTICLES 15 SECTION 2 OF THE OTP BANK PLC.'S ARTICLES OF ASSOCIATION

Proposal on the amendment of Article 5 Section 7, Article 6 Section 4, Article 8 Section 4, Article 13 Section 3, Article 13 Section 4, Articles 15 Section 2 of the OTP Bank Plc.'s Articles of Association

Summary of the proposal

The amendments related to the sections of the Articles of Association (hereinafter: AoA) listed below:

Proposal concerning the modified rules of Act on the Capital Market (AoA [Article 6 Section 4])
Proposals concerning the modified rules of International Financial Reporting Standards (so-called IFRS) stipulated by Act on Accounting (AoA [Article 13 Section 3, Article 13 Section 4])
Proposals concerning the modified rules of the new Code of Civil Procedure (AoA [Article 5 Section 7, Articles 15 Section 2])
Proposal concerning the modified corporate name of KELER Central Depository Private Company Limited by Shares (AoA [Article 8 Section 4])

Presentation of the amendment proposal

The text of the AoA is written in Times New Roman font; the new parts of the text are indicated by double underlining, and the ~~deleted parts~~ by cross-through.

Detailed amendment proposals

Our amendment proposal for the ordinary Annual General Meeting for year 2018 is related to the harmonization of the Articles of Association and other legal regulations, moreover to the modification of the corporate name of KELER Central Depository Private Company Limited by Shares.

1. PROPOSAL CONCERNING THE MODIFIED RULES OF ACT ON THE CAPITAL MARKET (AOA [ARTICLE 6 SECTION 4])

By the reason of the provision of Act on the Capital Market which was modified by the Act LXIX of 2017 on the modification of acts regulating the operation of financial markets and the trading of financial instruments for legal harmonization on 3 January 2018, contained by the AoA, it is proposed to modify the AoA as follows. (The new parts of the text of AoA are indicated by double underlining, and the deleted parts by cross-through, the proposal followed by reasoning.)

[Shareholders' rights and obligations]

6.4. [...] The Company must also be provided with proof of the conditions for exemption from the notification obligation in accordance with Section 61 (7)-(8) and (11), and Section 61 (10)-~~(11)~~(11a)-(12), of the Capital Markets Act.

Reasoning:

The purpose of the modification of AoA is to harmonize its text with the Act on the Capital Market modified on 3 January 2018. The modified point concerns the obligation of notification of the shareholders when they are below or above the threshold of holdings (5, 10, 15, 20%, etc.) and the exemption from this obligation of notification. The proposed modification of AoA does not change factually the shareholders obligation of notification towards the Company, it only maps the modification of the Act on the Capital Market. The essence of it that a shareholding situation (shares held in the trading book), which meant an exemption from the obligation of notification until now, shall not be - ab ovo - required to take account of voting rights attaching to shares (unlike the former situation when it had to be taken account but this situation was exempted from the obligation of notification).

2. PROPOSALS CONCERNING THE MODIFIED RULES OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (SO-CALLED IFRS) STIPULATED BY ACT ON ACCOUNTING (AOA [ARTICLE 13 SECTION 3, ARTICLE 13 SECTION 4])

By the reason of modification of Act C of 2000 on Accounting ("Act on Accounting) it is proposed to modify the text of the AoA in order to adjust it to the terminology of international accounting standards (hereinafter referred to as "IFRS") applied by the effective legal text.

[Reports of the Company and the distribution of profit]

13.3. The Company's business results are determined in accordance with ~~the prevailing Hungarian statutory provisions~~ international accounting standards promulgated in the Official Journal of the EU by way of the procedure provided for in regulation on the application of international accounting standards (hereinafter referred to as "IFRS").

13.4. Shareholders are entitled to receive a dividend from the Company's available profit ~~reserves supplemented by the previous financial year's after-tax profit~~ determined by the IFRS covering retained earnings from the last financial year for which accounts have been adopted comprising post-tax profit or loss of that financial year that has been set aside by the General Meeting for distribution among the shareholders.

Reasoning:

The purpose of the modification of AoA is to harmonize the text of the AoA with the modified, effective terminology of Act on Accounting, in particular consideration of the Company's business results and available profit that has been set aside by the General Meeting for distribution are determined in accordance with the application of international accounting standards.

3. PROPOSALS CONCERNING THE MODIFIED RULES OF THE NEW CODE OF CIVIL PROCEDURE (AOA [ARTICLE 5 SECTION 7, ARTICLES 15 SECTION 2])

Regarding the promulgation of the new Act on Civil Law Procedure ("Act on Civil Law Procedure") on 1 January 2018 and the related new number of act, the modification of two provisions of the AoA is proposed as follows.

[The Company's registered capital, Shares and Share Register]

5.7. The party acquiring shares, following the transfer of shares to such party, may request that the Board of Directors register the transfer in the Share Register, by submitting a request with the data specified in point 5.6, set out in a private deed of full probative force in accordance with ~~Act III of 1952 on Civil Law Procedure~~ Act on Civil Law Procedure. [...]

[Notices]

15.2. Any legal declaration made by the shareholder to the Company shall only be valid if set forth in a public document, or in a private deed of full probative force in accordance with ~~Act III of 1952 on Civil Procedure~~ Act on Civil Law Procedure.

Reasoning:

Regarding the promulgation of the new Act on Civil Law Procedure on 1 January 2018, we propose the modification of those two provisions of the AoA which contain the former, annulled number of the Act on Civil Law Procedure. In order to the AoA will comply with effective Hungarian statutory provisions any time in the future, we propose to delete the factual number of the act and to keep the name of the act in the text.

4. PROPOSAL CONCERNING THE MODIFIED CORPORATE NAME OF KELER CENTRAL DEPOSITORY PRIVATE COMPANY LIMITED BY SHARES (AOA [ARTICLE 8 SECTION 4])

Regarding the modification of corporate name of KELER Central Depository Private Company Limited by Shares ("Keler Ltd.") the correction of the AoA is proposed as follows.

[The Company's General Meeting]

8.4. The Company asks ~~Central Clearing House and Depository Zrt.~~ KELER Central Depository Private Company Limited by Shares (hereinafter: Keler Zrt.) to perform shareholder identification for the purposes of the General Meeting (including any repeated General Meeting), as a corporate event. [...]

Reasoning:

The purpose of the modification of AoA is to harmonize the text of the AoA with the modification of the corporate name of Keler Ltd. in consideration of the Company also asks Keler Ltd. to perform shareholder identification for the purposes of the General Meeting (including repeated General Meeting), as a corporate event.

RESOLUTION PROPOSAL No. 5/2018

The Annual General Meeting approves the amendment of Article 5 Section 7, Article 6 Section 4, Article 8 Section 4, Article 13 Section 3, Article 13 Section 4, Articles 15 Section 2 of the Articles of Association in accordance with the proposal of the Board of Directors, as per the annex to the minutes of the Annual General Meeting.

ELECTION OF THE MEMBER OF THE SUPERVISORY BOARD

ELECTION OF THE MEMBER OF THE SUPERVISORY BOARD

Given that Supervisory Board member Dominique Uzel has indicated to OTP Bank his intention to resign from his membership with the effect date of 13 April 2018, it is necessary to elect a new Supervisory Board member.

Regarding to the Strategic Agreement between OTP Bank and GROUPAMA SA, dated on 7 May 2008, Groupama Insurance Company ‐ replacing Mr Dominique Uzel - named his new candidate to OTP Bank in the person of Mr. Olivier Péqueux.

OLIVIER PÉQUEUX

Olivier Péqueux, was born in 1974, graduated from Institute of Actuaries of France and Université Paris-Dauphine, started to work in 1998 as an insurance commissioner for the French Insurance Supervisory Authority. In 2003, he joined the French Ministry of Finance to take part in the pension law reform and the creation of a pension fund for French civil servants. Then he became technical adviser to the French Minister of health and pensions.

In 2005 he joined Groupama group, first in charge of the actuary and accounting department of Gan Patrimoine, a life insurance company, and then in 2007 as Chief Financial Officer of Groupama Paris Val de Loire.

He moved to China in March 2011 as DGM of Groupama China, in charge of finance, actuary and investments in the joint venture between AVIC and Groupama. From 2015 to 2017, he was the General Manager of Groupama AVIC.
He has been the chairman of Groupama AVIC since September 2017.

RESOLUTION PROPOSAL No. 6/2018

The Annual General Meeting elects Mr. Olivier Péqueux as member of the Supervisory Board of the Company until the Annual General Meeting of the Company closing the 2019 business year but not later than 30 April 2020.

ELECTION OF THE MEMBER OF THE AUDIT COMMITTEE

ELECTION MEMBER OF THE AUDIT COMMITTEE

Due to the termination of the mandate of Mr Dominique Uzel in the Supervisory Board, his term in the Audit Committee expires as well, therefore a new Audit Committee member is also required.

Audit Committee shall be set up in accordance with the relevant provisions of the HBL and its members are identical with the external independent members of the Supervisory Board, therefore the new candidate for the Audit Committee is also Mr. Olivier Péqueux.

RESOLUTION PROPOSAL No. 7/2018

The Annual General Meeting elects Mr. Olivier Péqueux as member of the Audit Committee of the Company until the Annual General Meeting of the Company closing the 2019 business year but not later than 30 April 2020.

PROPOSAL ON THE REMUNERATION GUIDELINES OF THE OTP BANK PLC.

REMUNERATION GUIDELINES OF OTP BANK PLC.

The Bank Group’s Remuneration Policy is an integral part of the corporate governance system, and must be enforced throughout the entire Bank Group. The Bank Group’s Remuneration Policy, in keeping with the relevant European Union directive, is consistent with effective and successful risk management, and in accordance with its purpose, it does not encourage the assumption of risks that exceed the risk-assumption limits of the Bank and Bank Group subsidiaries, and furthermore it is consistent with the business strategy, objectives, values and long-term interests of the Bank and Bank Group subsidiaries, and it promotes the achievement of this.

1. The objective of the Remuneration Policy

The objective of the Bank Group’s Remuneration Policy is, within the Bank Group’s risk-tolerance capacity, to acknowledge the contribution of those managers and employees of OTP Bank Plc. and the Bank Group Subsidiaries who, through their professional activity, have a material impact on the risk profile of the individual institutions operating within the Bank Group, towards the achievement of bank and group-level results, and to provide an incentive for their performance.

2. Institutional and personal scope of the Remuneration Policy

The institutional scope of the Bank Group’s Remuneration Policy covers OTP Bank Plc., as well as all its subsidiaries that are rendered subject to consolidated supervision by the National Bank of Hungary.

Within this institutional circle, the personal scope of the Bank Group’s Remuneration Policy is determined, in accordance with the applicable EU regulations, on the basis of qualitative criteria drawn from the risk profile of the institutions operating within the Bank Group, as well as quantitative criteria determined by income level. To ensure fulfilment of the qualitative criteria the Bank applies a comprehensive risk-analysis procedure, in keeping with the group’s business and risk strategy, based on which it performs an assessment once a year at consolidated, sub-consolidated and local level for the purpose of identifying employees that exercise a material impact on the risk profile. The Bank takes the qualitative and quantitative criteria into account in accordance with the prevailing statutory requirements.

Belonging under the scope of the Bank Group Remuneration Policy are those senior officers and regular employees who, based on qualitative and quantitative criteria defined in Commission Delegated Regulation (EU) No 604/2014, exercise a material impact on the Bank Group’s operation and risk profile at consolidated level, or on the operation and risk profile of the individual institutions of the Bank Group at sub-consolidated or local level.

The Bank also supplements the risk criteria defined by Commission Delegated Regulation (EU) No 604/2014 with comprehensive internal risk-analysis methods approved by the Supervisory Board.

The Bank's Supervisory Board decides on the persons that fall under the scope of the Bank Group's Remuneration Policy based on the following criteria:

- In the case of those employees who are identified purely by quantitative criteria or, without excluding the possibility of this, qualitative criteria, the Bank's Supervisory Board is entitled to consider whether they exercise a material impact on the risk profile through their professional activity, and in the absence of such impact, it may decide to exclude the persons concerned from the scope of the remuneration policy – depending on the relevant statutory provisions – provided it reports this in advance to the National Bank of Hungary, or if it has permission to do so.
- Those subsidiaries that are not classed as credit institutions or investment firms and that represent less than 2% of the internal capital composition of the Bank Group or of a sub-consolidated group of an institution shall not qualify as material business units. Senior officers and regular employees of subsidiaries not classed as material business units are not, as a general rule – and in the absence of fulfilment of other identification criteria – regarded by the Bank as exercising a material impact on the risk profile of an institution.
- Those persons who the risk analysis have not identified, but who through their activity exercise a material impact on the Bank's operation and/or risk profile, may be brought by the Bank's Supervisory Board under the personal scope of the remuneration policy.

3. The framework for applying the Bank Group Remuneration Policy to the subsidiaries

All basic decisions related to the remuneration policy shall be made by OTP Bank Plc., while the subsidiaries shall be responsible for complying with the local statutory provisions and obligations.

- As a general rule, **the Bank Group Remuneration Policy** covers identified staff at subsidiaries that do not belong under the effect of the parent-bank and the local remuneration policy.
- **The local remuneration policies prepared by the foreign institutions operating within the Bank Group** – that transpose the provisions of the Bank Group Remuneration Policy to the local statutory environment of the individual countries – cover, as a general rule, the staff employed in the same country as the foreign institution who exercise a material impact on the risk profile of a bank-group institution.
- **Subsidiaries classed as fund management companies and operating in the European Union may also accept independent remuneration policies** in the interests of complying with the provisions of the AIFMD directive (Directive 2011/61/EU).

4. The ratio of basic remuneration and performance-based remuneration

The **members of the Board of Directors** and the **Supervisory Board** receive an honorarium of a fixed amount for their work in this capacity, and do not receive performance-based remuneration.

For other persons falling under the effect of the remuneration policy, the remuneration consists of basic remuneration and performance-based remuneration. The main components of basic remuneration are the basic salary and, in the case of Bank Group member institutions operating within the European Union, ordinary shares issued by OTP Bank. The basic remuneration may not be subject to the performance of those entitled to it, or to the discretionary decision of the employer.

The ratio of basic remuneration to performance-based remuneration is determined by the Bank's Supervisory Board, on the basis of the function, size and complexity of the organisation managed. The proportion of the performance-based remuneration may not exceed 100% of the basic remuneration in the case of any individual concerned.

The ratio of performance-based remuneration to total remuneration, depending on the function performed and the organisational position occupied by the senior officer or employee concerned, may vary within the bands set according to the following, with the proviso that the Supervisory Board of OTP Bank Plc. may – with consideration to the risk associated with retaining key staff as well as to local labour market practices – authorise departures from the specified bands:

		Levels							
		Level 1		Level 2		Level 3		Level 4	
		min.	max.	min.	max.	min.	max.	min.	max.
Type of position	Business	35%	50%	20%	40%	14,3%	35%	14,3%	25%
	Support	-	-	15%	35%	15%	30%	15%	25%
	Control	-	-	20%	35%	15%	30%	0%	25%

5. The method of performance assessment linked to performance-based remuneration

In the case of **managers employed by OTP Bank Plc.**, performance is assessed on the basis of criteria that measure performance at the bank-group and at the individual level (financial indices and indices measuring the quality of work).

In the case of the **managers of the Bank Group subsidiaries**, performance is assessed on a differential basis, in view of the nature of the companies' respective activities.

Bank Group-level performance is, based on the decision of the Supervisory Board, assessed by applying the group-level RORAC indicator or the group-level Economic Value Added (EVA) indicator.[1]

The group-level RORAC indicator measures the return on risk-adjusted capital, whereas the EVA indicator measures the nominal value generation capacity of the bank group, as the difference between the profit produced by the group and the expected yield on the regulatory capital required for this purpose.

The target value of the bank group-level indicator chosen for evaluating performance is determined by the Bank's Supervisory Board based on the approved financial plan for the given year. The Supervisory Board may modify the target value in response to statutory changes implemented after the determination thereof and/or changes in market circumstances that have a significant objective effect on the Bank Group's profit and/or the achievement of the target values set.

[1] This indicator is calculated based on the figures of the Hungarian and foreign companies operating as group members that belonged to the circle of consolidated subsidiaries throughout the entire assessed financial year.

6. Determining entitlement to performance-based remuneration

The decision regarding the maximum amount that may be spent on performance-based remuneration in respect of the assessed year, taking the Bank Group's performance into account, is made by the Supervisory Board within 45 days following the annual General Meeting closing the year in question.

Eligibility for performance-based remuneration, and the extent of the annual award, is determined, proportionately with fulfilment of the annual organisational and individual objectives,

- by the Board of Directors on the basis of a proposal by the Remuneration Committee in the case of the Chairman & CEO of OTP Bank Plc.,
- by the manager exercising employer's rights in the case of managers employed by the Bank, with the proviso that in respect of the heads of Risk Management, Internal Audit and Compliance the Remuneration Committee shall have the right of joint decision-making,
- in the case of the chief executives and the employees of the Bank Group subsidiaries identified at consolidated level, the body exercising owner's rights
- in the case of the managers of Bank Group subsidiaries identified at sub-consolidated and local level – not including the chief executive – and in knowledge of the position on the matter of the manager exercising employer's rights, the chief executive

with due consideration to any restrictive decision by the Supervisory Board.

7. Principles and rules relating to the payment of performance-based remuneration

7.1. Basic principles

- When assessing the performance of the year evaluated (year T), the amount of performance-based remuneration is determined and broken down to the level of individuals. The amount of performance-based remuneration is determined on the basis of an evaluation of individual performance as well as of the ratio of basic and performance-based remuneration.
- For persons exercising a material impact on the risk profile at consolidated level, the performance-based remuneration is, as a general rule, provided in the form of a cash bonus and, depending on whether the beneficiary chooses it, a share award, granted at a discounted price, with the proviso that the proportion of shares within the performance-based remuneration is at least 50%. In the case of subsidiaries that have their registered office outside the area of the European Union, the performance-based remuneration is, as a general rule, provided in the form of a cash bonus and, depending on whether the beneficiary chooses it, a cash payment of an amount equivalent to that which the beneficiary would have received had he or she received remuneration in the form of shares or a preferentially-priced share award, with the proviso that the method of calculating the nominal value of such award is to approved by an independent expert. This latter form of award must account for at least 50% of the performance-based remuneration.
- For persons employed at the subsidiaries who exercise a material impact on the risk profile at sub-consolidated level or local level, the performance-based remuneration is, as a general rule, provided in the form of a cash bonus plus a cash payment of an amount equivalent to that which the beneficiary would have received had he or she been

paid in shares, with the proviso that the method of calculating the nominal value of such award is approved by an independent expert. This latter form of award must account for at least 50% of the performance-based remuneration.

- If, in the case of a foreign subsidiary operating within the area of the European Union, the award of OTP Bank's ordinary shares or an equivalent-value cash payment is not possible due to a statutory provision or the practice of the foreign financial supervision, and furthermore, if the local tax legislation imposes substantially higher taxes on the award of OTP Bank's ordinary shares than on a cash payment, then the subsidiary is entitled to substitute this with the provision of some other asset consistent with the stipulations of Commission Delegated Regulation (EU) No 527/2014, or to apply to employees identified at consolidated level the rules applicable to subsidiaries that have their registered office outside the area of the European Union, as set out above.
- For persons participating in the share award – not including any persons who join the OTP Bank ESOP Organisation as participants – the share-based portion of the variable remuneration shall be provided by OTP Bank Plc.
- As a general rule, for persons exercising a material impact on the risk profile at consolidated level, 60% of the performance-based remuneration is deferred, while for persons exercising a material impact on the risk profile at sub-consolidated and local level, 40% of such remuneration is deferred.
- The period of the deferment is at least 3 years – and in the case of the Chairman & CEO and the Deputy CEOs of OTP Bank Plc., 4 years – during which period the amount of the deferred payment is set annually, in equal proportions.
- Eligibility to receive such deferred instalments is determined through a retrospective assessment of risks. The assessment of risks takes place partly on the basis of criteria for assessing prudent operation, i.e. it is necessary to ensure that the capital remains above the minimum level of regulatory capital defined in the law, and that operations are conducted without a need to resort to the deposit insurance fund, and, secondly, it is linked to the activity of the persons concerned. Based on the assessment of risks related to the activity of the persons concerned, the deferred instalment may be reduced or withdrawn in the event of a material breach of the internal rules, with particular regard to the provisions relating to risk management.
- Entitlement to the deferred instalments is linked to the subsequent assessment of risks, and is subject to the person's still being employed at the company at the time that the deferred instalment is due for payment. Exceptions to the above may only be validly authorised in respect of the executive directors (Chairman & CEO, Deputy CEOs) by OTP Bank's Supervisory Board, in the case of exceptional performance, whereas in respect of managers employed at the Bank and managers of the subsidiaries, including chief executives and managers identified at consolidated level, exceptions are permitted based on a decision of the Chairman & CEO of OTP Bank Plc. Among the staff identified at sub-consolidated and local level – not including the chief executives – exceptions are possible based on the decision of the subsidiary's chief executive, subject to the consent of the chairperson of the owner's governing body.

7.2 Settlement rules

- Settlement of the due instalments of performance-based remuneration takes place by 30 June in the year following the assessed period, at the latest.
- The number of shares that may be used for the settlement of performance-based remuneration taking the form of shares, broken down to individuals, must be determined as the quotient of the amount of performance-based remuneration taking the form of shares, and the share price determined by the Supervisory Board.
- The share price to be taken into account when determining the number of shares is set by the Supervisory Board on the basis of the average daily quoted price of the ordinary shares issued by OTP Bank, as registered by the Budapest Stock Exchange, on the three business days preceding the date of the Supervisory Board's decision made within the 10 days preceding settlement of the performance-based remuneration.
- Concurrently with this, the specific terms and conditions of the discounted share award are also determined, with the proviso that the share allowance granted at a discounted price may contain a maximum discount of HUF 2,000 at the time of performance assessment, and the profit content per share may be a maximum of HUF 4,000 at the time of vesting the share award.
- The Bank's Board of Directors, in the interest of managing shares acquirable in the framework of the remuneration policy, has decided to establish an ESOP Organisation. In the course of implementing the remuneration policy, shares or bonds issued by OTP Bank Plc. as founder and that constitute coverage for payment of an award to which the beneficiary is entitled as part of his or her performance-based remuneration, may be handed over to the ESOP Organisation, or may be purchased, or subscribed to, by the ESOP Organisation using funds provided to it by the Bank or one of its subsidiaries. Through the handing over of these securities to the ESOP Organisation, or through the purchase of, or subscription to them by the ESOP Organisation, the beneficiary concerned shall acquire a member's share in the ESOP Organisation. The member's share in the ESOP Organisation is not a negotiable instrument; it may not be encumbered or pledged as collateral, and it only assures payment of the award to the individual if the conditions prescribed in the remuneration policy (result of performance assessment, retrospective assessment of risks) are fulfilled. Any share of a member who does not meet the conditions for the award shall revert to the Bank or to the Bank's subsidiary that employs the individual concerned.
- Among the staff identified by the Bank Group's Remuneration Policy, the detailed terms of share-based performance remuneration awards granted through an ESOP Organisation may – within the constraints of the Remuneration Guidelines – be set by the Supervisory Board, with the proviso that participation of the beneficiaries in the ESOP Organisation, and thus the settlement of the performance remuneration through the ESOP Organisation, may only take place on the basis of the beneficiaries' voluntary decision.

The Supervisory Board of OTP Bank Plc., with the exception of matters placed under the authority of the General Meeting by law – and subject to an obligation to subsequently inform the owners – is authorised to amend the Bank Group Remuneration Policy.

RESOLUTION PROPOSAL No. 8/2018

The Annual General Meeting in line with the annex of the minutes of the meeting approves the remuneration principles of OTP Bank Plc. and simultaneously empowers the Supervisory Board of the Company to define the rules of the bank group's remuneration policy in detail in line with the remuneration principles.

DETERMINATION OF THE REMUNERATION OF THE MEMBERS OF THE BOARD OF DIRECTORS, THE SUPERVISORY BOARD AND THE AUDIT COMMITTEE

The remuneration of the members of OTP Bank's **Board of Directors**, **Supervisory Board** and the **Audit Committee** is **determined by the General Meeting**.

The present remuneration of members of the governing bodies was determined by the General Meeting in its resolutions 9/2016 and 10/2017. The honorarium of the members of the Board of Directors consists of a fixed remuneration settled monthly in Hungarian forint, and ordinary shares of OTP Bank Plc.. The monthly honorarium of the members of Supervisory Board consists of a fixed-amount remuneration settled in Hungarian forint. The members of Audit Committee do not receive any remuneration.

Fundamental component within the remuneration of the members of the Board of Directors is the share-based compensation, which ensures that the members have a long-term interest in implementing OTP Bank's strategic interest, increasing the share price and harmonising the interests of the governing body and the shareholders.

Considering the increase in the value of honorarium provided in the form of ordinary shares, and in addition to the honorarium of member of the Supervisory Board was raised significantly, it is advised to **keep the amount of the monthly honorarium of members of Board of Directors and the Supervisory Board** as set forth in resolutions No 9/2016 and No 10/2017 of the General Meeting.

In the case of the Audit Committee – given the fact that its members are also members of the Supervisory Board – no remuneration is proposed.

RESOLUTION PROPOSAL No. 9/2018

The Annual General Meeting does not modify the honorarium of the members of the Board of Directors and the members of the Supervisory Board as determined in resolutions No. 9/2016 and No. 10/2017 of the Annual General Meeting. The members of the Audit Committee are not to receive any remuneration.

AUTHORIZATION OF THE BOARD OF DIRECTORS TO ACQUIRE THE COMPANY'S OWN SHARES

AUTHORIZATION OF THE BOARD OF DIRECTORS TO ACQUIRE THE COMPANY'S OWN SHARES

Pursuant to both the Civil Code and section 8.33, subsection 13 of the Company's Articles of Association, the General Meeting has the power to authorise the Board of Directors to acquire treasury shares. The General Meeting of 2017, in its resolution no. 11/2017, authorised the Board of Directors to acquire treasury shares. This authorisation expires on 12 October 2018; however, the authorisation may be reissued. This authorisation is provided by the resolution constituting the subject matter of this proposal. The authorisation, in accordance with the statutory requirements, is subject to limitations of time and extent, which are specified in the resolution. Pursuant to the provisions of the Civil Code, the authorisation of the Board of Directors is valid for 18 months, and the number of treasury shares acquirable by the Company may not exceed an extent equivalent to 25 per cent of the share capital.

The purpose of the authorisation is for the Board of Directors to acquire treasury shares in the interests of

(i) supplying the shares necessary for the management incentives system that is in place at the Company,

(ii) developing and maintaining the Company's services provided to its customers,

(iii) creating an opportunity for rapid intervention in the event of share price fluctuation, and

(iv) implementing transactions related to the optimisation of the Company's capital.

The authorisation of the General Meeting is necessary, but not in itself sufficient, prerequisite for the execution of treasury-share purchases. This is because under EU rules[1] relating to the purchase of treasury shares every treasury-share purchase transaction needs to be authorised by the National Bank of Hungary (MNB), either for each purchase individually or – if this is legally possible – based on a limit-type authorisation ("Permission of MNB").

The Bank has the necessary Permissions of MNB: (i) in order to ensure the payments as part of the remuneration policy for 2,000,000 pieces stock limit and (ii) for BUX ETF investment units moreover for handling the risks arising from transactions on the BUX Futures for 1,250,000 pieces stock limit.

Based on the authorisation granted by the General Meeting and on the permission of the MNB, the share transactions may be concluded on the regulated market (the stock exchange), or outside of such market (OTC-transaction). To prevent the simultaneous existence of two authorisations, the authorisation set forth in General Meeting resolution no. 11/2017 shall lose its effect upon the passing of the proposed resolution. The Company publishes data relating to treasury shares and to the transactions that involve such shares in accordance with the effective statutory provisions.

[1] Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (CRR), and Commission Delegated Regulation (EU) No 241/2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for Own Funds requirements for institutions

RESOLUTION PROPOSAL No. 10/2018

The Annual General Meeting hereby authorizes the Board of Directors to acquire own shares for the purpose of supplying the shares necessary for the management incentives system that is in operation at OTP Bank Plc., creating the opportunity for rapid intervention in the event of share price fluctuations, developing and maintaining the services provided to customers, and executing transactions related to optimization of the Company's capital.

The Board of Directors is authorized to acquire a maximum of as many ordinary shares with a nominal value of HUF 100 that is one hundred forints, as ensures that the portfolio of own shares, in respect of the measure stipulated in the frame-permissions of the Magyar Nemzeti Bank, does not exceed 70,000,000 shares at any moment in time.

Should the acquisition of shares take place in a reciprocal transaction, then the consideration applied in such transaction may be a minimum of the share's nominal value, and a maximum of 150% of the highest price recorded on the Budapest Stock Exchange on the day preceding conclusion of the transaction, or, in the case of a stock-exchange transaction, 120% of the closing price recorded on the Budapest Stock Exchange on the day preceding conclusion of the transaction. The Board of Directors may exercise its rights set forth in this mandate until 11 October 2019. The mandate set forth in Annual General Meeting resolution 11/2017 shall lose its effect upon the passing of this resolution.