DOCUMENTS FOR THE ANNUAL GENERAL MEETING

ANNUAL GENERAL MEETING OF OTP BANK PLC.

TO BE HELD ON 12 APRIL 2019

DATE AND VENUE OF THE AGM: 12 APRIL 2019, 10 A.M.
SOFITEL BUDAPEST CHAIN BRIDGE

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THE REPORT OF THE BOARD OF DIRECTORS ON THE COMPANY'S BUSINESS OPERATIONS IN 2018

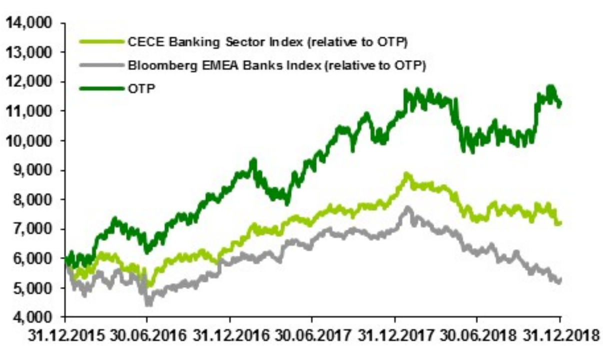
BUSINESS REPORT
OTP BANK (SEPARATE)

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 recognised income	2017 HUF million	2018 HUF million	Change %
Consolidated after tax profit	**281,339**	**318,322**	**13**
Adjustments (total)	**(2,733)**	**(7,013)**	**157**
Consolidated adjusted after tax profit without the effect of adjustments	**284,072**	**325,335**	**15**
Pre-tax profit	321,421	362,734	13
Operating profit	363,159	384,908	6
Total income	804,946	881,726	10
Net interest income	546,654	599,832	10
Net fees and commissions	209,428	220,731	5
Other net non-interest income	48,864	61,163	25
Operating expenses	(441,788)	(496,818)	12
Total risk costs	(45,682)	(26,167)	(43)
One off items	3,945	3,993	1
Corporate taxes	(37,349)	(37,400)	0
Main components of balance sheet closing balances	2017	2018	%
Total assets	13,190,228	14,590,288	11
Total customer loans (net, FX adjusted)	**7,116,207**	**8,066,592**	**13**
Total customer loans (gross, FX adjusted)	**7,835,162**	**8,719,342**	**11**
Allowances for possible loan losses (FX adjusted)	(718,955)	(652,751)	(9)
Total customer deposits (FX adjusted)	**10,436,537**	**11,285,085**	**8**
Issued securities	250,320	417,966	67
Subordinated loans	76,028	81,429	7
Total shareholders' equity	1,640,055	1,826,657	11
Indicators based on adjusted earnings	2017	2018	pps
ROE (from accounting net earnings)	18.5%	18.7%	0.2
ROE (from accounting net earnings, on 12.5% CET1 ratio)	22.4%	23.2%	0.8
ROE (from adjusted net earnings)	18.7%	19.1%	0.4
ROA (from adjusted net earnings)	2.4%	2.3%	0.0
Operating profit margin	3.03%	2.76%	(0.26)
Total income margin	6.71%	6.33%	(0.38)
Net interest margin	4.56%	4.30%	(0.25)
Cost-to-asset ratio	3.68%	3.57%	(0.12)
Cost/income ratio	54.9%	56.3%	1.5
Provision for impairment on loan and placement losses-to-average gross loans ratio	0.43%	0.23%	(0.20)
Total risk cost-to-asset ratio	0.38%	0.19%	(0.19)
Effective tax rate	11.6%	10.3%	(1.3)
Net loan/(deposit+retail bond) ratio (FX adjusted)	68%	72%	3
Capital adequacy ratio[2] (consolidated, IFRS) - Basel3	14.6%	18.3%	3.6
Tier1 ratio - Basel3	12.7%	16.5%	3.8
Common Equity Tier1 ('CET1') ratio - Basel3	12.7%	16.5%	3.8
Share Data	2017	2018	%
EPS diluted (HUF) (from unadjusted net earnings)	1,074	1,215	13
EPS diluted (HUF) (from adjusted net earnings)	1,085	1,242	14
Closing price (HUF)	10,720	11,290	5
Highest closing price (HUF)	10,930	11,850	8
Lowest closing price (HUF)	7,815	9,600	23
Market Capitalization (EUR billion)	9.7	9.8	2
Book Value Per Share (HUF)	5,857	6,524	11
Tangible Book Value Per Share (HUF)	5,219	5,921	13
Price/Book Value	1.8	1.7	(5)
Price/Tangible Book Value	2.1	1.9	(7)
P/E (trailing, from accounting net earnings)	10.7	9.9	(7)
P/E (trailing, from adjusted net earnings)	10.6	9.7	(8)
Average daily turnover (EUR million)	15	18	20
Average daily turnover (million share)	0.5	0.5	0

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'S 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] The 2018 consolidated after tax profit less dividend proposal was incorporated into the own funds when calculating the 4Q 2018 consolidated capital adequacy ratios presented in the Business Report.

MANAGEMENT'S ANALYSIS OF THE FULL-YEAR 2018 RESULTS OF OTP GROUP

Out of the last few decades in 2018 the Hungarian economy had its most successful year. Apart from absolute figures turning to be impressive – according to the preliminary crude data published on 14 February 2019 the full year expansion was 4.8%, the fiscal deficit remained well below the originally targeted 2% level, public debt to GDP dropped below 71% –, the whole economy became structurally healthier with the growth being shaped mainly by local consumption and dynamically expanding investments.

The average inflation was 2.8% in 2018, however the core inflation excluding indirect taxes, an indicator closely watched by the Central Bank came close to 3% by the end of the year.

In 2018 both the Hungarian Forint and local government yields demonstrated significant volatility, however in the second half of the year the HUF gained strength and yields tightened.

The all-time low unemployment rate (October-December: 3.6%) coupled with dynamic wage increase resulted in a robust increase of household lending activity: as for the local banking sector newly originated retail volumes surged by 37.5% y-o-y as a result outstanding volumes increased by 6.7%, respectively (within that housing loan volumes grew by 10%, cash loan portfolio by 37.4%, whereas home equity exposure dropped by 12.9% y-o-y). Corporate loan volumes advanced by 14.8% y-o-y.

The Government and the Central Bank assisted upholding the dynamic lending activity, as well as containing the interest rate exposure of clients through targeted measures. Within the macroprudential policy toolset of NBH the modification of the so-called debt break (payment to income ratio) rules effective from October 2018 encouraged clients to shift to longer interest rate fixation periods while underwriting mortgages. As a result, by the end of 2018 the weight of fixed rate mortgages with a fixing period of one year and beyond exceeded 90% within the new flow on a sector level. With a specific objective to raise the proportion of long-term, fixed-rate lending to SMEs, on 18 September 2018 NBH announced its Funding for Growth Scheme Fix with a total amount of HUF 1,000 billion available from January 2019 under preferential rates for the sector.

Amid the supportive macroeconomic environment the volume of non-performing exposures, as well as their ratio dropped significantly.

As a result of the favourable developments in February 2019 both S&P and Fitch upgraded the Hungarian sovereign rating (to 'BBB' in both cases with stable outlook).

With regard to the Group, all national economies within OTP universe enjoyed GDP growth and favourable macroeconomic conditions. Positive developments were rewarded by rating upgrades in several cases (Bulgaria, Serbia, Croatia, Ukraine, and Russia). At the same time the Ukrainian and Romanian central banks had to hike rates during the course of the year in order to curb inflation and fiscal overheatedness; the Central Bank of Russia also tightened monetary conditions in 2H 2018. The Ukrainian hrivnya and the Russian ruble suffering from significant volatility during the last few years on a yearly average weakened by 3.6 and 8.2% y-o-y against HUF in 2018.

Consolidated earnings: HUF 325.3 billion (above EUR 1 billion) adjusted after tax profit in 2018, robust business activity and volume expansion, moderate erosion of NIM, further declining risk costs and steadily improving portfolio quality

OTP Group posted all-time high accounting and adjusted profit in 2018 shaped by a couple of factors: on the back of the favourable macroeconomic performance of the region business activity got further boost, as a result FX-adjusted performing loan volumes expanded by 15% y-o-y, an outstanding dynamics even in European context. Furthermore, credit quality improved further coupled with lower or in certain cases even with positive annual risk costs. Higher core banking revenues realized on increasing performing portfolio could easily offset the negative impact of eroding margins induced by the stubbornly low interest rate environment, tighter regulatory requirements and intensifying competition. Also, bottom line earnings got a meaningful lift from incorporating the full year profit in case of the Croatian and Serbian operations. Recall: in the base period only eight months profit from Splitska banka and one month profit from Vojvodjanska banka supported the Group's earnings.

In 2018 OTP Bank continued its regional acquisition activity: in August it announced the purchase of Sociéte Generale's Bulgarian and Albanian operations, followed by the Serbian operation in December. The Bulgarian transaction was completed on 15 January, while the Albanian and Serbian transactions are expected to be settled in 1H 2019. Accordingly, 2018 financial statements include neither the balance sheet, nor the profit or loss statement of any of those individual entities.

The full year consolidated accounting profit was HUF 318.3 billion versus HUF 281.3 billion in the base period.

The accounting ROE for 2018 stood at 18.7% (+0.2 pp y-o-y), whereas the adjusted ROA (2.3%) remained practically unchanged y-o-y.

During the course of the year total adjustment items comprised -HUF 7 billion (after tax), the below items should be mentioned:

- +HUF 18.8 billion (after tax) gain was realized on MIRS (Monetary Policy Interest Rate Swap) facilities.

  Background: according to the decision by the Monetary Council (MC) of the National Bank of Hungary on 21 November 2017 the MC introduced an unconditional interest rate swap (IRS) facility, with 5 and 10 years maturity, and set the allocated amount at HUF 300 billion for the first quarter of 2018. Counterparty banks could access the IRS facility on regular tenders from the beginning of January 2018. In line with the fine-tuning of the unconventional policy instruments affecting long-term yields, on 18 September 2018 MC decided on phasing out the monetary policy IRS facilities by the end of 2018. The Council set the annual maximum volume of monetary policy IRS for 2018 at HUF 1,100 billion.

  Until November 2018 – in coordination with the auditor – the initial positive net present value (NPV) gained on MIRS deals was accrued for the whole maturity of MIRS transactions within the net interest income. In December 2018 NBH published guidelines on its website (https://www.mnb.hu/letoltes/mirs.pdf), according to which those swap facilities were unconditional, therefore in NBH's opinion there was no such binding criteria within the conditions that would require the accrual of NPVs.

  Taking into consideration the NBH's guidelines, OTP Bank – with the consent of the auditor – decided to book the total initial positive NPVs in one lump sum within its P&L. As a result, in the adjusted P&L structure the total HUF 20.7 billion (before tax) gain realized in 2018 as a whole was presented in 4Q 2018 within adjustment items on the *Initial NPV gain on the monetary policy interest rate swap (MIRS) deals* line.

  The reported adjusted net interest income for the first three quarters of 2018 contained the accrued gains related to MIRS for that periods, whereas in 4Q 2018 that cumulated amount was recognized with a negative sign within net interest income in the adjusted income statement. Since the first nine months accrued gain was not material, it didn't have a substantial impact on the quarterly development in the adjusted net interest income of OTP Core;

- in 2018 the banking taxes paid by Group members resulted in an after tax negative impact of HUF 15.3 billion, including the Hungarian special tax of financial institutions and the Slovakian banking levy;

- -HUF 4.7 billion (after tax) tax shield related partly to the recognition or reversal of impairment charges booked in relation to investments in certain subsidiaries; also there was goodwill write-off;

- -HUF 6.8 billion effect of acquisitions;

- +HUF 0.5 billion related to the revision of the fine imposed by the Hungarian Competition Authority (GVH) back in 2013. In 2016 the Hungarian Supreme Court obliged GVH to conduct a new process, as a result GVH set a lower fine for OTP Bank in August 2018 (HUF 1.435 billion). Simultaneously, OTP Bank released provision set aside earlier for that purpose.

2018 income statement already incorporated the full-year profit contribution by both Splitska banka and Vojvodjanska banka. The integration of Splitska banka (the legal merge and IT integration) was completed in December 2018.

In 2018 OTP Group posted HUF 325.3 billion adjusted after-tax profit (+15% y-o-y). The effective tax rate declined by 1.3 pps to 10.3%. The before tax profit grew by 13% compared to the base year.

Within the annual profit – given their individual weight – profit contribution from OTP Core (HUF 180 billion), DSK Bank (HUF 47.3 billion), the Croatian operation (HUF 25 billion), the Ukrainian (HUF 24.4 billion) and Russian subsidiaries (HUF 16.4 billion) was the most meaningful. Out of those banks only the Russian subsidiary suffered a y-o-y profit decline, while others enjoyed their profits improving y-o-y, of which Ukraine was the ultimate winner (+73% y-o-y, annual ROE: 56%). Regarding the Russian performance one should note that the loss-making Touch Bank was shown as a separate entity in 2017, however, starting from 2018, it was presented as part of the Russian operation. So, including Touch Bank's result in the base period, too, the Russian operation suffered a y-o-y 13% profit decline in RUB terms.

As for other subsidiaries, the Leasing segment posted again a decent profit (HUF 9.9. billion), whereas the weaker net earnings at OTP Fund Management were reasoned by the lower success fee. The Romanian, Serbian and Montenegrin subsidiaries posted a significant profit improvement y-o-y, whereas the Slovakian subsidiary realized a marginal profit against a loss in 2017.

As a result, the 2018 profit contribution of foreign subsidiaries increased from 35% to 38% y-o-y.

Annual total income of OTP Group increased dynamically (+10% y-o-y, +6% without acquisition effect[3]). The annual operating profit improved by 6% y-o-y, whereas total risk costs dropped by 43%.

It was positive that despite the continuing margin erosion and intensifying competition the annual net interest income advanced by 10% y-o-y (without acquisitions by 6%) due to the higher volumes of performing loans. The net fee and commission income grew by 5% compared to 2017 (+2% without acquisitions), the pace of its increase fell short of the business volume expansion and the reasons were mainly related to the Hungarian operation: on one hand the distribution fees on certain household targeted government bonds were reduced in several steps by the Government Debt Management Agency, also, the fee income at OTP Fund Management dropped a lot y-o-y as a result of lower success fees.

Other net non-interest income advanced by HUF 12.3 billion (+25% y-o-y) induced partially by the consolidation of full year contribution from Splitska and Vojvodjanska banka. Also, FX-gains supported this line in a meaningful way.

The consolidated net interest margin was shaped by several factors: the prevailing low interest rate environment, intensifying competition, the composition effect through lower margins at Splitska and Vojvodjanska banka, as well as the y-o-y 8% devaluation of RUB against HUF. Still, the margin erosion of the 2018 annual NIM (4.30%) was only 7 pps compared to the 4Q 2017 level, i.e. lower what the management guided (“10-15 bps margin erosion compared to 4Q 2017 NIM of 4.38%”).

Consolidated operating expenses grew by 12% nominally y-o-y, adjusted for the acquisition impact of Splitska and Vojvodjanska banka the increase would be 8.2% y-o-y on an FX-adjusted basis. Despite all cost elements increased, personnel expenses grew the most (+17% y-o-y, without acquisitions +12%) reflecting the 10% or above wage inflation in most of the countries. Furthermore, in December 2018 a non-recurring one-off bonus amounting to one month base salary was paid to non-managerial employees at Hungarian Group members. This was partially offset by the 2.5 pps reduction of social and health care contributions to be paid by employers effective from January 2018. Amortization costs increased at a lower rate by 4% y-o-y. Administrative expenses grew by 10% y-o-y (without acquisitions +3%) induced partially by higher general banking expenses (rental fees, post and telecom expenses), higher regulatory contributions and also by growing digital transformation expenses. The annual FX-adjusted growth of operating expenses adjusted for acquisition and the one-off Hungarian bonus payment would be 6.8%.

In 2018 the consolidated FX-adjusted performing loan volumes surged by 15%, more than HUF 1,000 billion y-o-y. It was positive that all Group members and all credit segments posted volume increase. Out of the individual performances OTP Core (+18%), Serbia (+31%), Ukraine (+30%), Russia (+30%) and Bulgaria (+11%) demonstrated excellent y-o-y growth dynamics, but smaller operations like the Montenegrin or Romanian ones, as well as Merkantil Bank also excelled themselves.

As for the major credit segments the biggest volume increase was posted in the large corporate segment (+20% y-o-y) followed by the SME and consumer loan segment (+18% and +14%, respectively), but the performing mortgage volumes growth of 6% y-o-y was remarkable, too.

The FX-adjusted deposit portfolio increase was less robust in 2018 (+8% y-o-y). As a result, the net loan/(deposit + retail bonds) ratio increased by 3 pps y-o-y to 72%.

At the end of 2018 the Group’ gross liquidity reserves comprised EUR 7.8 billion equivalent.

In line with the supportive macroeconomic environment, as well as the improving efficiency of collection, the trend of the DPD90+ volume increase (adjusted for FX and the effect of sales and write-offs) remained favourable: accordingly, in 2018 DPD90+ volumes grew only by HUF 24 billion versus an increase of HUF 51 billion in the base period. The DPD90+ ratio dropped to 6.3% (-2.9 pps y-o-y), resembling already pre-crisis levels. The DPD90+ volume decline was supported by sales and write-offs reaching HUF 176 billion in 2018. In Hungary the DPD90+ ratio dropped to 4.5% (-1.9 pps y-o-y). The consolidated risk cost rate was 0.23% versus 0.43% in the base period.

According to IFRS 9 the volume of Stage 3 exposure at the end of 2018 comprised 8.6% of gross loans. Stage 2 exposures represented 6.8% of gross loans.

[3] In early December 2018 Splitska banka d.d. merged into OTP banka Hrvatska dd., thus separate financial statements for Splitska banka d.d. are not available for December. Therefore, profit dynamics without acquisitions are based on estimated numbers.

Consolidated capital adequacy ratio (in accordance with BASEL III)

By the end of December 2018 the consolidated Common Equity Tier1 ratio under IFRS was 16.5% including the unaudited interim profit and deducting the indicated annual dividend amount.

Credit rating, shareholder structure

The Hungarian sovereign rating remained unchanged in 2018, as a result there was practically no change in the existing credit ratings of OTP Bank and OTP Mortgage Bank. Accordingly, OTP Bank's long term foreign-currency deposit rating is 'Baa3' by Moody's with stable outlook. OTP Mortgage Bank's HUF issuer rating by Moody's was 'Baa3' with stable outlook and their covered bond carried a rating of 'Baa1'. Since Moody's introduced a new rating category, according to its announcement of 18 June 2018, both OTP Bank Plc. and OTP Mortgage Bank Ltd. were assigned a 'Baa1' long-term counterparty risk rating. According to S&P Global OTP Bank an OTP Mortgage Bank had a rating of 'BBB-' the outlook was stable. S&P Global's resolution counterparty rating (RCR) for both entities are 'BBB'. From Dagong Global OTP Bank has a 'BBB+' rating, the outlook is stable. OTP Bank Russia has a 'BB' rating by Fitch, the outlook is stable.

Regarding the ownership structure of the Bank, by 31 December 2018 the following investors had more than 5% influence (voting rights) in the Company: MOL (the Hungarian Oil and Gas Company, 8.64%), the Kafijat Ltd. (7.49%), OPUS Securities SA (5.22%) and Groupama Group (5.16%).

POST BALANCE SHEET EVENTS

Hungary

- The National Bank of Hungary announced on 11 January 2019 that it has revised the Mortgage Funding Adequacy Ratio (MFAR) regulation. According to the amendments – among others –, the required MFAR level will be raised from 20% to 25% effective from 1 October 2019; additionally, the required minimum maturity of accepted funds will be increased to 3 years, and the quality requirements of eligible mortgage bonds will be strengthened.
- Mr. Mihály Varga, Minister of Finance, said on a press conference on 11 January 2019 that in order to boost the economic activity, the government is open to make a proposal to abolish the financial transaction tax in the case of retail money transfers.
- Mr. Márton Nagy, Deputy Governor of the National Bank of Hungary stressed on a conference in Vienna on 16 January 2019 that if the yearly core inflation excluding indirect tax effects was to reach or exceed the 3% threshold, that would be taken by the central bank as an adequate evidence that the start of the monetary policy tightening is justified.
- On 5 February 2019 OTP Bank signed an acquisition agreement on purchasing 87.85% shareholding of Mobiasbanca – Groupe Societe Generale S.A., the Moldovan subsidiary of Societe Generale Group. The financial closure of the transaction is expected in the coming months subject to obtaining all the necessary regulatory approvals.
- In his state-of-the-nation speech held on 10 February 2019, Prime Minister Viktor Orbán announced a demography programme to support families and improve birth rates in Hungary. The seven-point programme will start on 1 July 2019; its detailed rules are yet to be seen. The most important actions of the family protection plan are as follows, based on the Prime Minister's announcement:
    - An allowance is being designed to encourage young married couples to have children. Every woman under the age of forty who marries for the first time will be eligible for a zero interest rate loan of HUF 10 million to start their new lives. After the birth of a child the repayment of the loan will be suspended for three years. After the arrival of the second child, the loan will be suspended for another three years, and one-third of the principal debt will be written off. When the third child is born, the remaining part of the loan will be completely cancelled.
    - The subsidized loan provided under the CSOK (Housing Subsidy for Families) scheme will be extended. Currently, families with two or three children are entitled for subsidized housing loans amounting to HUF 10 million and 15 million, respectively, for purchasing new homes. In the future families with two or more children will also be allowed to use the subsidized loan for the purchase of existing properties.
    - So far, the government has assumed HUF 1 million from the mortgage loans of large families upon the birth of the third and every further child thereafter. This option will be extended: the government will assume HUF 1 million upon the birth of the second child already; it will assume HUF 4 million when the third child is born, and additional HUF 1 million will be assumed upon the birth of each further child.
    - Women who have given birth to and raised at least four children will be exempt from the payment of personal income tax for the rest of their lives.
    - A car purchase programme was announced for large families (who raise at least three children), in form of a non-repayable grant of HUF 2.5 million for the purchase of new cars with at least seven seats.
- The Hungarian Statistical Office announced on 14 February 2019 that Hungary's GDP grew by 5.0% y-o-y in Q4 2018. The seasonally and calendar-adjusted figure was 4.8%. The related statement of Mihály Varga, Minister of Finance, noted: in order to preserve Hungary's robust growth rates and to ensure that it exceeds the EU average by at least 2% in a persistent manner, the government supports the improvement of Hungary's competitiveness and it will design an economic policy action plan.
- On 15 February 2019 S&P Global Ratings upgraded the credit rating of Hungary by one notch, from 'BBB-' to 'BBB'. The outlook is stable.

- On 19 February 2019 S&P Global Ratings raised its long and short-term resolution counterparty ratings (RCR) on OTP Bank Plc. and OTP Mortgage Bank Ltd. to 'BBB/A-2' from 'BBB-/A-3'; while the 'BBB-/A-3' long- and short-term issuer credit ratings (ICRs) on both banks were affirmed. The outlooks remained stable at both banks.
- On 22 February 2019 Fitch Ratings upgraded the credit rating of Hungary by one notch, from 'BBB-' to 'BBB'. The outlook is stable.
- On 27 February 2019 the Government and the National Bank of Hungary announced a comprehensive set of economic policy measures aiming at improving the competitiveness and the long-term growth potential of the Hungarian economy, while maintaining the sustainable fiscal policy and debt trajectory.
- On 28 February 2019 OTP Bank announced that Crnogorska komercijalna banka a.d., the Montenegrin subsidiary of OTP Bank signed an acquisition agreement on purchasing 90.56% shareholding of Societe Generale banka Montenegro a.d., the Montenegrin subsidiary of Societe Generale Group.

Bulgaria

- On 7 January 2019 OTP Bank announced that the Bulgarian Court of Registration registered a capital increase at DSK Bak EAD, the Bulgarian subsidiary of OTP Bank. Accordingly, the registered capital of DSK Bank was increased to BGN 1,327,482,000 from BGN 153,984,000.
- The financial closure of the transaction based on the acquisition agreement on purchasing 99.74% shareholding of Societe Generale Expressbank (SGEB), the Bulgarian subsidiary of Societe Generale Group and other local subsidiaries held by SGEB, between Societe Generale Group and DSK Bank, the Bulgarian subsidiary of OTP Bank, has been completed on 15 January 2019.

Russia

- On 8 February 2019 Moody's rating agency raised the Russian sovereign rating back into investment grade, to 'Baa3'. The outlook is stable.

CONSOLIDATED AFTER TAX PROFIT BREAKDOWN BY SUBSIDIARIES (IFRS)[4]

	2017 HUF million	2018 HUF million	Change %
Consolidated after tax profit	**281,339**	**318,322**	**13**
Adjustments (total)	**(2,733)**	**(7,168)**	**162**
Consolidated adjusted after tax profit without the effect of adjustments	**284,072**	**325,335**	**15**
Banks total[1]	265,422	308,831	16
OTP Core (Hungary)[2]	168,576	180,445	7
Corporate Centre[3]	194	6,190	
DSK Bank (Bulgaria)[4]	47,122	47,293	0
OTP Bank Russia[5]	27,771	16,420	(41)
Touch Bank (Russia)[6]	(7,391)		
OBH (Croatia)[7]	17,105	24,961	46
OTP Bank Ukraine[8]	14,120	24,415	73
OTP Bank Romania[9]	3,036	3,850	27
OTP banka Srbija (Serbia)[10]	(2,904)	2,999	(203)
CKB (Montenegro)[11]	(155)	2,214	
OBS (Slovakia)[12]	(2,051)	44	(102)
Leasing	9,836	9,827	0
Merkantil Bank + Car, adj. (Hungary)[13]	8,260	7,437	(10)
Foreign leasing companies (Croatia, Bulgaria, Romania, Serbia)[14]	1,575	2,391	52
Asset Management	8,677	4,159	(52)
OTP Asset Management (Hungary)	8,259	4,122	(50)
Foreign Asset Management Companies (Ukraine, Romania, Bulgaria)[15]	418	37	(91)
Other Hungarian Subsidiaries	(747)	1,601	(314)
Other Foreign Subsidiaries[16]	295	388	31
Eliminations	590	528	(10)
Total adjusted after tax profit of HUNGARIAN subsidiaries[17]	185,132	200,323	8
Total adjusted after tax profit of FOREIGN subsidiaries[18]	98,940	125,012	26
Share of foreign profit contribution	35%	38%	10

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Main components of the Statement of recognized income	2017 HUF million	2018 HUF million	Change %
Consolidated after tax profit	**281,339**	**318,322**	**13**
Adjustments (total)	**(2,733)**	**(7,013)**	**157**
Dividends and net cash transfers (after tax)	680	457	(33)
Goodwill/investment impairment charges (after tax)	(6,064)	(4,729)	(22)
Special tax on financial institutions (after corporate income tax)	(15,233)	(15,286)	0
Impact of fines imposed by the Hungarian Competition Authority (after tax)	177	565	220
Effect of acquisitions (after tax)	17,708	(6,844)	(139)
Initial NPV gain on the monetary policy interest rate swap (MIRS) deals (after tax)		18,823	
Consolidated adjusted after tax profit without the effect of adjustments	**284,072**	**325,335**	**15**
Before tax profit	**321,421**	**362,734**	**13**
Operating profit	**363,159**	**384,908**	**6**
Total income	**804,946**	**881,726**	**10**
Net interest income	**546,654**	**599,832**	**10**
Net fees and commissions	**209,428**	**220,731**	**5**
Other net non-interest income	**48,864**	**61,163**	**25**
Foreign exchange result, net	21,622	33,568	55
Gain/loss on securities, net	7,068	2,461	(65)
Net other non-interest result	20,175	25,134	25
Operating expenses	**(441,788)**	**(496,818)**	**12**
Personnel expenses	(213,599)	(249,447)	17
Depreciation	(46,482)	(48,210)	4
Other expenses	(181,707)	(199,161)	10
Total risk costs	**(45,682)**	**(26,167)**	**(43)**
Provision for impairment on loan and placement losses	(31,058)	(19,283)	(38)
Other provision	(14,624)	(6,885)	(53)
Total one-off items	**3,945**	**3,993**	**1**
Gain on the repurchase of own Upper and Lower Tier 2 Capital	0	0	
Result of the treasury share swap agreement at OTP Core	3,945	3,993	1
Corporate taxes	**(37,349)**	**(37,400)**	**0**
INDICATORS	2017	2018	%/pps
ROE (from accounting net earnings)	18.5%	18.7%	0.2
ROE (from adjusted net earnings)	18.7%	19.1%	0.4
ROA (from adjusted net earnings)	2.4%	2.3%	0.0
Operating profit margin	3.03%	2.76%	(0.26)
Total income margin	6.71%	6.33%	(0.38)
Net interest margin	4.56%	4.30%	(0.25)
Net fee and commission margin	1.75%	1.58%	(0.16)
Net other non-interest income margin	0.41%	0.44%	0.03
Cost-to-asset ratio	3.68%	3.57%	(0.12)
Cost/income ratio	54.9%	56.3%	1.5
Provision for impairment on loan and placement losses-to-average gross loans	0.43%	0.23%	(0.20)
Total risk cost-to-asset ratio	0.38%	0.19%	(0.19)
Effective tax rate	11.6%	10.3%	(1.3)
Non-interest income/total income	32%	32%	0
EPS base (HUF) (from unadjusted net earnings)	1,074	1,215	13
EPS diluted (HUF) (from unadjusted net earnings)	1,074	1,215	13
EPS base (HUF) (from adjusted net earnings)	1,085	1,243	14
EPS diluted (HUF) (from adjusted net earnings)	1,085	1,242	14
Comprehensive Income Statement	2017	2018	%
Consolidated after tax profit	281,339	318,322	13
Fair value changes of financial instruments measured at fair value through other comprehensive income	15,677	(20,323)	(230)
Fair value adjustment of derivative financial instruments designated as cash-flow hedge	0	(9)	
Net investment hedge in foreign operations	155	(3,253)	
Foreign currency translation difference	(20,535)	10,007	(149)
Change of actuarial costs (IAS 19)	(241)	(65)	(73)
Net comprehensive income	**276,395**	**304,679**	**10**
o/w Net comprehensive income attributable to equity holders	276,222	304,813	10
Net comprehensive income attributable to non-controlling interest	173	(134)	(177)
Average exchange rate[1] of the HUF	2017 HUF	2018 HUF	Change %
HUF/EUR	309	319	3
HUF/CHF	279	276	(1)
HUF/USD	274	270	(1)

[1] Exchange rates presented in the tables of this report should be interpreted as follows: the value of a unit of the other currency expressed in Hungarian forint terms, i.e. HUF/EUR represents the HUF equivalent of one EUR.

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 163 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).

Total liquidity reserves of OTP Bank remained steadily and substantially above the safety level. As of 31 December 2018 the gross liquidity buffer was around EUR 7.75 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 709 million on 31 December 2018).

The volume of issued securities increased by 67% y-o-y, mainly because in order to comply with the liquidity ratio introduced by the National Bank of Hungary OTP Group sold about HUF 220 billion mortgage bonds (issued by OTP Mortgage Bank) to external counterparties in 2018, while the amount of repurchased mortgage bonds amounted to HUF 52 billion.

On the yearly basis the Hungarian retail bond portfolio shrank by HUF 2 billion to HUF 5 billion (-27%).

The volume of subordinated debt increased by 7% y-o-y. On one hand, the HUF value of the EUR denominated perpetual bond increased due to the HUF weakening against the EUR, on the other, the Ukrainian subsidiary received an USD 17 million subordinated funding in the second quarter, which matures in 2025.

…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.

In 2018 OTP Group concluded monetary policy interest rate swap deals with NBH in the amount of HUF 299 billion.

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 38.3 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. The strategic open position has been kept since 2007, and its size has been constant at EUR 310 million since 2008. The revaluation result of the strategic open position is accounted for directly against the equity.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF OTP GROUP

Main components of balance sheet	2017 HUF million	2018 HUF million	Change %
TOTAL ASSETS	**13,190,228**	**14,590,288**	**11**
Cash, amounts due from Banks and balances with the National Banks	1,198,046	1,547,272	29
Placements with other banks, net of allowance for placement losses	462,180	420,606	(9)
Financial assets at fair value through profit or loss	344,417	181,355	(47)
Securities at fair value through other comprehensive income	2,174,718	1,883,849	(13)
Net customer loans	6,987,834	8,066,592	15
Net customer loans (FX adjusted[1])	**7,116,207**	**8,066,592**	**13**
Gross customer loans	7,690,419	8,719,342	13
Gross customer loans (FX adjusted[1])	**7,835,162**	**8,719,342**	**11**
o/w Retail loans	4,924,781	5,297,735	8
Retail mortgage loans (incl. home equity)	2,496,493	2,568,636	3
Retail consumer loans	1,870,080	2,093,404	12
SME loans	558,209	635,695	14
Corporate loans	2,641,636	3,110,652	18
Loans to medium and large corporates	2,435,223	2,812,763	16
Municipal loans	206,414	297,889	44
Car financing loans	268,586	310,955	16
Bills and accrued interest receivables related to loans	158	0	(100)
Allowances for loan losses	(702,585)	(652,751)	(7)
Associates and other investments	12,269	17,592	43
Securities at amortized costs	1,310,331	1,740,520	33
Tangible and intangible assets, net	413,389	420,484	2
o/w Goodwill, net	100,976	91,766	(9)
Tangible and other intangible assets, net	312,414	328,718	5
Other assets	287,044	312,018	9
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**13,190,228**	**14,590,288**	**11**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	472,068	392,706	(17)
Deposits from customers	10,233,471	11,285,085	10
Deposits from customers (FX adjusted[1])	**10,436,537**	**11,285,085**	**8**
o/w Retail deposits	7,414,825	8,244,455	11
Household deposits	6,204,452	6,806,288	10
SME deposits	1,210,372	1,438,168	19
Corporate deposits	3,007,037	3,029,285	1
Deposits to medium and large corporates	2,314,641	2,320,971	0
Municipal deposits	692,397	708,314	2
Accrued interest payable related to customer deposits	14,675	11,344	(23)
Liabilities from issued securities	250,320	417,966	67
o/w Retail bonds	6,500	4,732	(27)
Liabilities from issued securities without retail bonds	243,821	413,235	69
Other liabilities	518,286	586,445	13
Subordinated bonds and loans[2]	76,028	81,429	7
Total shareholders' equity	**1,640,055**	**1,826,657**	**11**
Indicators	2017	2018	%/pps
Loan/deposit ratio (FX adjusted[1])	75%	77%	2
Net loan/(deposit + retail bond) ratio (FX adjusted[1])	68%	72%	3
Stage 3 loan volume under IFRS 9		753,033	
Stage 3 loans under IFRS9/gross customer loans		8.6%	
Stage 2 loan volume under IFRS 9		591,870	
Stage 2 loans under IFRS9/gross customer loans		6.8%	
90+ days past due loan volume	707,211	551,498	(22)
90+ days past due loans/gross customer loans	9.2%	6.3%	(2.9)
Total provisions/90+ days past due loans	99.3%	118.4%	19.0
Consolidated capital adequacy - Basel3	2017	2018	%/pps
Capital adequacy ratio (consolidated, IFRS)	14.6%	18.3%	3.6
Tier1 ratio	12.7%	16.5%	3.8
Common Equity Tier1 ('CET1') capital ratio	12.7%	16.5%	3.8
Regulatory capital (consolidated)	1,228,628	1,731,970	41
o/w Tier1 Capital	1,062,701	1,565,247	47
o/w Common Equity Tier1 capital	1,062,701	1,565,247	47
Tier2 Capital	165,927	166,723	0
o/w Hybrid Tier2	89,935	89,935	0
Consolidated risk weighted assets (RWA) (Credit&Market&Operational risk)	8,389,920	9,488,916	13
o/w RWA (Credit risk)	6,795,559	7,966,050	17
RWA (Market & Operational risk)	1,594,361	1,522,866	(4)
Closing exchange rate of the HUF	2017 HUF	2018 HUF	Change %
HUF/EUR	310	322	4
HUF/CHF	265	285	8
HUF/USD	259	281	9

[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 recognised income	2017 HUF million	2018 HUF million	Change %
After tax profit without the effect of adjustments	168,576	180,445	7
Corporate income tax	(16,986)	(14,717)	(13)
Pre-tax profit	185,562	195,162	5
Operating profit	150,833	144,577	(4)
Total income	365,591	378,534	4
Net interest income	234,304	245,934	5
Net fees and commissions	109,128	107,010	(2)
Other net non-interest income	22,159	25,590	15
Operating expenses	(214,758)	(233,956)	9
Total risk costs	30,784	46,591	51
Provision for impairment on loan and placement losses	33,586	48,192	43
Other provisions	(2,803)	(1,601)	(43)
Total one-off items	3,945	3,993	1
Gain on the repurchase of own Upper and Lower Tier2 Capital	0	0	
Revaluation result of the treasury share swap agreement	3,945	3,993	1
Indicators	**2017**	**2018**	**pps**
ROE	12.3%	12.2%	(0.1)
ROA	2.3%	2.2%	(0.1)
Operating profit margin	2.1%	1.8%	(0.3)
Total income margin	5.02%	4.64%	(0.38)
Net interest margin	3.22%	3.01%	(0.20)
Net fee and commission margin	1.50%	1.31%	(0.19)
Net other non-interest income margin	0.30%	0.31%	0.01
Operating costs to total assets ratio	2.9%	2.9%	(0.1)
Cost/income ratio	58.7%	61.8%	3.1
Provision for impairment on loan and placement losses/average gross loans[1]	(1.23%)	(1.60%)	(0.37)
Effective tax rate	9.2%	7.5%	(1.6)

[1] Negative *Provision for impairment on loan and placement losses/average gross loans* ratio implies positive amount on the *Provision for impairment on loan and placement losses* line.

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

Main components of balance sheet closing balances	2017 HUF million	2018 HUF million	Change %
Total Assets	7,704,135	8,563,425	11
Net customer loans	2,634,920	3,096,391	18
Net customer loans (FX-adjusted)	**2,651,784**	**3,096,391**	**17**
Gross customer loans	2,793,871	3,241,345	16
Gross customer loans (FX-adjusted)	**2,812,752**	**3,241,345**	**15**
Retail loans	1,823,513	1,970,879	8
Retail mortgage loans (incl. home equity)	1,275,721	1,329,562	4
Retail consumer loans	372,012	425,786	14
SME loans	175,779	215,531	23
Corporate loans	989,239	1,270,466	28
Loans to medium and large corporates	953,436	1,185,030	24
Municipal loans	35,803	85,436	139
Provisions	(158,951)	(144,954)	(9)
Provisions (FX-adjusted)	**(160,969)**	**(144,954)**	**(10)**
Deposits from customers + retail bonds	5,388,080	5,967,857	11
Deposits from customers + retail bonds (FX-adjusted)	**5,431,237**	**5,967,857**	**10**
Retail deposits + retail bonds	3,504,431	4,050,098	16
Household deposits + retail bonds	2,845,112	3,259,145	15
o/w: Retail bonds	6,500	4,732	(27)
SME deposits	659,319	790,953	20
Corporate deposits	1,926,806	1,917,759	0
Deposits to medium and large corporates	1,307,433	1,311,242	0
Municipal deposits	619,373	606,517	(2)
Liabilities to credit institutions	285,539	236,700	(17)
Issued securities without retail bonds	288,799	461,138	60
Total shareholders' equity	1,430,256	1,561,688	9
Loan Quality	2017	2018	%/pps
Stage 3 loan volume under IFRS 9 (in HUF million)		190,682	
Stage 3 loans under IFRS 9/gross customer loans		5.9%	
90+ days past due loan volume (in HUF million)	179,618	147,218	(18)
90+ days past due loans/gross customer loans	6.4%	4.5%	(1.9)
Total provisions/90+ days past due loans	88.5%	98.5%	10.0
Market Share	2017	2018	pps
Loans	20.6%	20.8%	0.3
Deposits	26.1%	25.7%	(0.4)
Total Assets	25.7%	26.2%	0.5
Performance Indicators	2017	2018	pps
Net loans to (deposits + retail bonds) (FX-adjusted)	49%	52%	3
Leverage (closing Shareholder's Equity/Total Assets)	18.6%	18.2%	(0.3)
Leverage (closing Total Assets/Shareholder's Equity)	5.4x	5.5x	0.1x
Capital adequacy ratio (OTP Bank, non-consolidated, Basel3, IFRS)	31.4%	28.2%	(3.2)
Common Equity Tier1 ratio (OTP Bank, non-consolidated, Basel3, IFRS)	29.0%	26.2%	(2.8)

- ***The adjusted profit after tax of OTP Core reached HUF 180.4 billion in 2018, marking a 7% increase on the back of higher positive risk costs***
- ***The annual net interest margin attrition reached 20 bps (3.01%)***
- ***Favourable credit quality trends remained intact, the DPD90+ ratio sank to 4.5%***
- ***Performing loan volume growth accelerated to 18% in 2018. The corporate segment remained the engine of growth, but household volumes also gained momentum: consumer loans expanded by 19%, mortgages by 6%. Within mortgages, housing loan expansion exceeded 10%***
- ***Full-year mortgage loan disbursements soared by 40% y-o-y. Within new loan applications the share of fixed rate and within that, the proportion of loans with longer interest rate fixation periods have been rising further***

P&L developments

Without the effect of adjustment items **OTP Core** posted an after tax profit of HUF 180.4 billion in 2018, marking an improvement of 7% y-o-y, driven by 51% higher positive risk costs beside 4% decline in operating profit.

The annual total income (without one-off revenue items) went up by 4% y-o-y, predominantly driven by the 5% improvement in net interest income. Gross interest revenues benefited from dynamic organic loan volume growth, and the placement of additional liquidity generated by the deposit inflow. The annual net interest margin (3.01%) declined by 20 bps compared to the previous year.

The annual net fee and commission income decreased by 2% y-o-y. On one hand, growing volumes and transactional turnover resulted in stronger card, deposit and transaction-related fee revenues. However, securities fee income declined because the distribution fees on certain household targeted government bonds were reduced by the Government Debt Management Agency in many steps.

The annual other net non-interest income (without one-offs) grew by 15% y-o-y. This was partially owing to the better FX-result realized in 2Q 2018, whereas the gain on securities moderated.

The *revaluation result of the treasury share swap agreement* (showed among the one-off revenue items) remained stable y-o-y.

Annual operating expenses increased by 9% y-o-y. Within that, the dynamics of personnel expenses was driven by base salary hikes in 2017 and further hikes effective from April 2018 in the network and July 2018 in the headquarters, but the higher number of employees played a role, too. Furthermore, in December 2018 a non-recurring one-off bonus amounting to one month base salary was paid to non-managerial employees at Hungarian Group members, adding HUF 5.4 billion to personnel expenses at OTP Core. These were partially offset by the 2.5 pps reduction of social and health care contributions to be paid by employers effective from January 2018. (In 2017 the Government cut these contributions by 5 pps).

On the total risk costs line a positive amount of HUF 46.6 billion was recognized in 2018, 51% more than a year ago.

Benign risk cost developments were aided by favourable credit quality trends amid supportive economic environment: the DPD90+ loan volumes adjusted for FX rate movements and without problem loan sales and write offs declined by HUF 8.5 billion in the course of 2018 (within that HUF 2 billion in 1Q, HUF 3 billion in 2Q, HUF 2 billion in 3Q and HUF 1.5 billion in 4Q 2018), against a decline of HUF 5 billion in 2016 as a whole adjusted for the technical effect of the AXA portfolio take-over, and HUF 14 billion in 2017, respectively. In 2018 HUF 24 billion non-performing exposures were sold or written off. The trend-like improvement of DPD90+ ratio continued: it moderated by 1.9 pps y-o-y to 4.5%. The ratio of Stage 3 loans under IFRS 9 to total gross loans stood at 5.9% by the end of 2018.

Balance sheet trends

The FX-adjusted gross loan portfolio increased by 15% 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 18% y-o-y, against 11% growth reported in 2017 (FX-adjusted).

Organic loan expansion was predominantly driven by outstanding corporate loan growth in 2018, too, similar to the previous two years. It is favourable that household loan growth and within that, mortgage and consumer loan expansion has been following an accelerating growth pattern, too.

As for mortgages, their performing stock volume growth amounted to 6% y-o-y. The stock of performing mortgage loans consists of three major sub-categories: housing loans (making up 77% of the total performing stock), home equities (or mortgage-backed consumer loans, 21%), and flat lease (1%). These three product segments have different growth patterns. Performing housing loan volumes are the main contributors to growth: their yearly expansion pierced 10% (+11% y-o-y). On the contrary, home equity loans have been steadily dwindling (-9% y-o-y) as their amortization exceeds new disbursements in the wake of waning popularity compared to the pre-crisis period. Flat lease volumes making up a small part of total mortgages grew by 2% y-o-y.

Annual mortgage loan applications at OTP Core amounted to HUF 355 billion (+21% y-o-y). Cumulated new disbursements showed a 40% increase y-o-y.

OTP Bank’s market share in new mortgage loan contractual amounts reached 29.2% in 2018 as a whole, up from 27.7% a year ago.

With respect to mortgage lending, one of the most important and spectacular developments was the steady and unambiguous rise in the popularity of fixed rate mortgages. At OTP the proportion of fixed rate housing loans (with an interest rate fixation period of at least 5 years) within non-subsidized housing loan applications reached 97% in 4Q 2018, up from around 50% in 2017 as a whole. It was also positive that in the last several months the applications for mortgages with a repricing period of 10 years or more gained further ground: in 4Q 2018 the aggregated volume of applications for loans with fixation period of 10 and 20 years was close to 80% within total fixed rate credits.

The above developments were stimulated by the deliberate policies taken by the National Bank of Hungary, through the introduction of the certified consumer-friendly housing loans and the amendments to the PTI rules effective from 1 October 2018. In 4Q 2018 the share of certified customer-friendly mortgages within new fixed rate market-based housing loan applications exceeded 70%.

OTP Bank helps Hungarian families realize their housing aims through its active participation in the Housing Subsidy Scheme for Families (CSOK), too. In 2018 altogether more than 12 thousand applications for the CSOK subsidy were registered at OTP Bank with a value of over HUF 40 billion.

Performing consumer loan dynamics demonstrated an accelerating trend: they went up by 19% in 2018, versus +14%[5] a year ago (FX-adjusted). Within consumer loans, cash loan growth was outstanding the yearly increase reached 38%. OTP's market share in the cash loan volumes stood at 33.4% at the end of the period under review.

FX-adjusted deposit volumes (including retail bonds) increased by 10% y-o-y. The yearly expansion was driven by household and SME deposits (+15% and +20%, respectively), whereas corporate volumes remained stable.

The net loan to (deposit+retail bonds) ratio improved by 3 pps y-o-y, edging up to 52%, thus the balance sheet structure of the Hungarian base operation became more efficient, though the absolute level of the ratio can still be regarded as quite low.

As for the distribution of the liquidity reserves of the Bank, in the last several years there has been a gradual shift towards longer duration Hungarian government securities, and this trend continued into 2018, too.

The yearly increase in the volume of issued securities without retail bonds (+HUF 172 billion) was reasoned on one hand by covered bond issuances by OTP Mortgage Bank: in 2Q HUF denominated covered bonds were sold with 5 year maturity and fixed 1.75% coupon, in 3Q floating rate (1M BUBOR + 60 bps) HUF covered bonds were issued with 2024 maturity, and in 4Q HUF denominated covered bonds maturing in 2024 with fixed 2.5% coupon. At the same time, previously issued covered bonds were repurchased.

[5] In 2017 the yearly performing consumer loan dynamics was +25% on an FX-adjusted basis, fuelled by several large-ticket lombard loans, too – without these the y-o-y growth would have been 14%.

OTP FUND MANAGEMENT (HUNGARY)

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

Main components of P&L account	2017 HUF million	2018 HUF million	Change %
After tax profit w/o dividends and net cash transfer	8,259	4,122	(50)
Income tax	(811)	(403)	(50)
Profit before income tax	9,070	4,525	(50)
Operating profit	9,089	4,525	(50)
Total income	11,763	7,121	(39)
Net interest income	0	0	(0)
Net fees and commissions	11,765	7,196	(39)
Other net non-interest income	(2)	(75)	
Operating expenses	(2,674)	(2,596)	(3)
Other provisions	(20)	0	
Main components of balance sheet closing balances	2017	2018	%
Total assets	20,587	16,821	(18)
Total shareholders' equity	17,958	14,353	(20)
Asset under management	2017 HUF billion	2018 HUF billion	%
Assets under management, total (w/o duplicates)[1]	**1,519**	**1,035**	**(32)**
Volume of investment funds (closing, w/o duplicates)	942	749	(21)
Volume of managed assets (closing)	576	286	(50)
Volume of investment funds (closing, with duplicates)[2]	1,180	982	(17)
money market	189	129	(31)
bond	295	217	(26)
mixed	56	55	(1)
security	158	153	(3)
guaranteed	49	32	(34)
other[3]	434	395	(9)

[1] The cumulative net asset value of investment funds and managed assets of OTP Fund Management, eliminating the volume of own investment funds (duplications) being managed in other investment funds and managed assets of OTP Fund Management.
[2] The cumulative net asset value of investment funds with duplications managed by OTP Fund Management.
[3] Other funds: absolute return, derivative and commodity market funds.

OTP Fund Management achieved HUF 4.1 billion profit in 2018 (-50% y-o-y). The erosion was a result of the outstandingly strong performance in the base period, as a consequence of diminishing net fees and commissions by 39% y-o-y, whereas operating expenses moderated by 3% y-o-y.

The yearly performance of net fees and commissions was shaped by the following factors: the fund management fee income matched the base period as the negative impact of lower volume of managed assets was offset by shifting towards higher fee-generating funds. At the same time, compared to 2017 the overall market was more volatile taking its toll through lower success fees (-HUF 4 billion y-o-y).

Considering the whole market, in 2018 the assets under management of BAMOSZ members (without property funds) eroded by 11% y-o-y and by the end of December dropped to HUF 4,403 billion. Bond portfolios suffered an overall outflow, whereas the money market, equity and guaranteed funds on the top of that experienced negative yields, too.

Volume of investment funds (closing, with duplicates) at the Company decreased by 17% y-o-y. The shift within different types of investment funds reflected the overall market developments. The most significant net outflow hit the bond and money market funds.

The market share of OTP Fund Management (without duplications) was 22.3% at the end of 2018, down by 1.4 pps y-o-y. The Company retained its market leading position.

MERKANTIL BANK AND CAR (HUNGARY)

Performance of Merkantil Bank and Car:

Main components of P&L account	2017 in HUF million	2018 in HUF million	Change %
After tax profit without the effect of adjustments	8,260	7,437	(10)
Income tax	(357)	456	
Profit before income tax	8,618	6,981	(19)
Operating profit	6,229	6,599	6
Total income	12,423	12,983	5
Net interest income	12,477	13,131	5
Net fees and commissions	(366)	(124)	(66)
Other net non-interest income	311	(24)	
Operating expenses	(6,194)	(6,384)	3
Total provisions	2,389	382	(84)
Provision for impairment on loan and placement losses	2,049	256	(87)
Other provision	340	126	(63)
Main components of balance sheet closing balances	2017	2018	%
Total assets	369,180	404,750	10
Gross customer loans	292,925	321,353	10
Gross customer loans (FX-adjusted)	293,925	321,353	9
Retail loans	28,985	29,558	2
Corporate loans	90,141	103,541	15
Car financing loans	174,798	188,254	8
Allowances for possible loan losses	(21,000)	(13,853)	(34)
Allowances for possible loan losses (FX-adjusted)	(21,048)	(13,853)	(34)
Deposits from customers	20,799	15,180	(27)
Deposits from customer (FX-adjusted)	20,799	15,180	(27)
Retail deposits	19,250	13,307	(31)
Corporate deposits	1,549	1,873	21
Liabilities to credit institutions	303,371	337,136	11
Issued securities	0	0	(100)
Total shareholders' equity	30,268	37,189	23
Loan Quality	2017	2018	%/pps
Stage 3 loan volume under IFRS 9 (in HUF million)		14,133	
Stage 3 loans under IFRS 9/gross customer loans		4.4%	
Provision for impairment on loan and placement losses/average gross loans	(0.71%)	(0.08%)	0.63
90+ days past due loan volume (in HUF million)	16,874	10,204	(39.5)
90+ days past due loans/gross customer loans	5.8%	3.2%	(2.6)
Total provisions/90+ days past due loans	124.5%	135.8%	(11.3)
Performance Indicators	2017	2018	pps
ROA	2.3%	1.9%	(0.4)
ROE	29.4%	24.4%	(4.9)
Total income margin	3.49%	3.38%	(0.11)
Net interest margin	3.50%	3.42%	(0.08)
Cost/income ratio	49.9%	49.2%	(0.7)

On 30 September 2018 Merkantil Car Ltd. merged into Merkantil Bank Ltd. and ceased to exist as a separate legal entity.

Merkantil Bank and Car posted HUF 7.4 billion adjusted after tax profit in 2018 which is 10% below the base period. The y-o-y lower profit was mainly attributable to credit risk cost development: against HUF 2.4 billion positive total risk cost in the base period, in 2018 risk costs comprised only +HUF 0.4 billion.

In 2018 net interest income increased by 5% y-o-y, the expansion of performing loan volumes had a positive NII-effect, while the net interest margin eroded.

Net fee and commission expenses in 2018 dropped by 66% y-o-y: the distribution of certain deposit products came to an end, as a result lower distribution fees were paid compared to the base period.

Annual operating expenses grew by 3% y-o-y, within that depreciation, marketing cost and expert fees increased.

Credit quality trends remained positive. The ratio of DPD90+ loans decreased by 2.6 pps y-o-y to 3.2% parallel with HUF 6.4 billion problem loans being sold or written off in 2018. The ratio of Stage 3 loans under IFRS 9 to total gross loans stood at 4.4%.

The FX-adjusted performing loan portfolio expanded by 12% on a yearly basis as a result of favourable disbursement dynamics. The volume of performing corporate exposures and car loans expanded by 16 and 12%, respectively, on a yearly base. Total new loan origination surged by 26% y-o-y, within that the volume of newly disbursed car loans expanded by 22% y-o-y in 2018.

Merkantil retained its market leading position both in terms of new disbursements and outstanding leasing volumes.

IFRS REPORTS OF THE MAIN FOREIGN SUBSIDIARIES OF OTP BANK

DSK GROUP (BULGARIA)

Performance of DSK Group:

Main components of P&L account	2017 in HUF million	2018 in HUF million	Change %
After tax profit without the effect of adjustments	47,122	47,293	0
Income tax	(4,920)	-4,308	(12)
Profit before income tax	52,042	51,601	(1)
Operating profit	61,461	57,096	(7)
Total income	108,290	107,817	0
Net interest income	72,257	69,979	(3)
Net fees and commissions	27,714	30,435	10
Other net non-interest income	8,319	7,403	(11)
Operating expenses	(46,830)	-50,720	8
Total provisions	(9,419)	-5,495	(42)
Provision for impairment on loan and placement losses	(3,571)	-9,532	167
Other provision	(5,848)	4,038	(169)
Main components of balance sheet closing balances	**2017**	**2018**	**%**
Total assets	1,925,740	2,381,275	24
Gross customer loans	1,184,871	1,343,729	13
Gross customer loans (FX-adjusted)	1,228,363	1,343,729	9
Retail loans	857,693	932,756	9
Corporate loans	370,671	410,973	11
Allowances for possible loan losses	(109,137)	(111,369)	2
Allowances for possible loan losses (FX-adjusted)	(113,141)	(111,369)	(2)
Deposits from customers	1,626,924	1,890,897	16
Deposits from customer (FX-adjusted)	1,690,207	1,890,897	12
Retail deposits	1,508,881	1,654,613	10
Corporate deposits	181,325	236,283	30
Liabilities to credit institutions	4,802	3,144	(35)
Total shareholders' equity	250,296	453,891	81
Loan Quality	**2017**	**2018**	**%/pps**
Stage 3 loan volume under IFRS 9 (in HUF million)		141,513	
Stage 3 loans under IFRS 9/gross customer loans		10.5%	
Provision for impairment on loan and placement losses/average gross loans	0.31%	0.74%	0.44
90+ days past due loan volume (in HUF million)	93,936	89,986	(4)
90+ days past due loans/gross customer loans	7.9%	6.7%	(1.2)
Total provisions/90+ days past due loans	116.2%	123.8%	7.6
Performance Indicators	**2017**	**2018**	**pps**
ROA	2.5%	2.3%	(0.2)
ROE	20.0%	18.4%	(1.6)
Total income margin	5.77%	5.20%	(0.58)
Net interest margin	3.85%	3.37%	(0.48)
Cost/income ratio	43.2%	47.0%	3.8
Net loans to deposits (FX-adjusted)	66%	65%	(1)
FX rates	**2017 HUF**	**2018 HUF**	**Change %**
HUF/BGN (closing)	158.6	164.4	4
HUF/BGN (average)	158.1	163.0	3

- ***Stable, HUF 47.3 billion profit after tax in 2018 as a result of moderating operating profit (-7%) and lower risk costs***
- ***The FX-adjusted performing loan portfolio grew by 11% y-o-y***
- ***The annual net interest margin eroded by 48 bps to 3.37%***
- ***The ratio of DPD90+ loans sank to 6.7%. The pace of credit quality deterioration remained moderate in 2018 as a whole***
- ***The full-year risk cost fell by 42% in 2018***

Based on the acquisition agreement on purchasing 99.74% shareholding of Societe Generale Expressbank („SGEB") and other local subsidiaries held by SGEB, signed by Societe Generale Group and DSK Bank EAD on 1 August 2018, the financial closure of the transaction was completed on 15 January 2019. Upon the request of the seller, OTP Bank doesn't disclose the purchase price.

2018 financial statements include neither the balance sheet, not the profit or loss statement of SGEB.

Due to the acquisition and in order to comply with regulatory capital requirements, OTP Bank raised capital in DSK Bank in December 2018. As a result, the shareholders' equity of DSK Bank increased by EUR 600 million equivalent.

DSK Group posted an after tax profit of HUF 47.3 billion in 2018 (flat in HUF terms, -3% in local currency terms), corresponding to an ROE of 18.4%.

The annual operating profit decreased by 7% due to the 8% increase of operating expenses, whereas total income remained stable. Total income was shaped mainly by the 3% decline in net interest income and the 10% improvement in net fee and commission income, while other income diminished by 11%.

Net interest income declined on the back of the 48 bps erosion of the annual net interest margin (3.37%), reflecting mainly the ongoing repricing of assets. This was partially offset by the dynamic loan volume expansion.

The full-year net fee and commission income improved by 10%, mainly as a result of deposits and transactions related revenue growth. Other net non-interest income dropped by 11% y-o-y partly due to moderating gain on securities.

The annual operating expenses grew by 8% y-o-y (+5% in BGN terms). Within that personnel expenses went up by 14% in HUF terms and 10% in local currency terms; latter was reasoned by the 2% higher average total headcount and the 8% increase in average personnel expense per employee. At the same time, in Bulgaria the average gross nominal wage increase reached 7.4% y-o-y in the course of 2018. On a yearly basis expenses related to computer hardware and office equipment, telecommunication and marketing, as well as charges paid to supervisory authorities increased, but expert fees showed a decline.

In 2018 as a whole total risk cost amounted to -HUF 5.5 billion, implying a 42% y-o-y decline. Within that provision for impairment on loan and placement losses were two and a half times higher than a year earlier, partly as a result of that in the course of the last quarter the PD and LGD parameters, as well as the macroeconomic expectations were revised in the IFRS9 provisioning models.

In 2018 the risk cost rate hit 0.7%, up from 0.3% in the previous year. This was mainly driven by the higher provisioning levels induced by the IFRS9 methodology, and the revision of IFRS9 model parameters in 4Q 2018. Other provisions saw a release in 2018 as a whole.

In 2018 HUF 9 billion problem loans were sold or written off. FX-adjusted DPD90+ volumes without the impact of loan sales and write-offs increased by HUF 1.4 billion in 2018. The DPD90+ ratio decreased by 1.2 pps y-o-y to 6.7%. The ratio of Stage 3 loans to total gross loans stood at 10.5% at the end of 2018.

Lending activity picked up further in 2018: the dynamically growing new loan disbursements resulted in accelerating performing loan volume expansion, hitting 11% in 2018, up from 7% a year ago (FX-adjusted). As for the main segments, performing mortgage loans were up by 14% y-o-y, thanks to the 73% surge in new disbursements (in local currency terms).

As for cash loans and point-of-sale loans, the full-year new origination grew by 12% y-o-y in local currency, thus performing consumer loans expanded by 7% y-o-y. The performing corporate loan portfolio increased by 14% in the last 12 months, DSK's market share in outstanding corporate loans improved to 8.0% from 7.7% at the end of 2017.

The FX-adjusted deposit base increased by 12% y-o-y, supported by both the retail and corporate segments. The net loan-to-deposit ratio stood at 65% at the end of 2018, reflecting a 1 pp decline y-o-y on an FX-adjusted basis.

The capital adequacy ratio of DSK Bank under local regulation stood at 16.3%, against 17.2% a year ago. The capital adequacy ratio and capital requirement of DSK Bank were shaped by the following factors: on one hand, interim results less dividend cannot be included into the regulatory capital due to the lack of audit, but the steady organic growth in loan volumes resulted in y-o-y higher risk weighted assets (RWA). Secondly, the other systemically important financial institutions buffer (O-SII) introduced from 2018 will gradually creep up: from 0.25% in 2018 to 0.75% in 2019 and 1% in 2020. Thirdly, the SGEB deal was financially closed on 15 January 2019; as a prelude to that in December 2018 DSK Bank received a capital injection from OTP Bank, the registration of which, thus its inclusion into the regulatory capital has not yet happened by the end of 2018.

OTP BANK RUSSIA

Performance of OTP Bank Russia:

Main components of P&L account	2017 HUF million	2018 HUF million	Change %
After tax profit w/o dividends and net cash transfer	27,771	16,420	(41)
Income tax	(7,514)	(4,614)	(39)
Profit before income tax	35,285	21,034	(40)
Operating profit	72,015	68,878	(4)
Total income	125,290	129,899	4
Net interest income	101,326	102,489	1
Net fees and commissions	22,975	26,766	17
Other net non-interest income	989	644	(35)
Operating expenses	(53,276)	(61,021)	15
Total provisions	(36,730)	(47,844)	30
Provision for impairment on loan and placement losses	(35,880)	(42,204)	18
Other provision	(850)	(5,640)	564
Main components of balance sheet closing balances	**2017**	**2018**	**%**
Total assets	638,031	707,593	11
Gross customer loans	531,280	610,355	15
Gross customer loans (FX-adjusted)	482,392	610,355	27
Retail loans	430,413	544,519	27
Corporate loans	51,871	65,733	27
Car financing loans	108	103	(5)
Gross DPD0-90 customer loans (FX-adjusted)	405,826	528,360	30
Retail loans	358,138	463,799	30
Allowances for possible loan losses	(112,158)	(126,655)	13
Allowances for possible loan losses (FX-adjusted)	(102,215)	(126,655)	24
Deposits from customers	353,306	379,911	8
Deposits from customer (FX-adjusted)	326,031	379,911	17
Retail deposits	261,547	301,887	15
Corporate deposits	64,484	78,025	21
Liabilities to credit institutions	100,404	120,156	20
Issued securities	353	320	(9)
Subordinated debt	22,780	22,522	(1)
Total shareholders' equity	135,213	147,999	9
Loan Quality	**2017**	**2018**	**%/pps**
Stage 3 loan volume under IFRS 9 (in HUF million)		84,469	
Stage 3 loans under IFRS 9/gross customer loans		13.8%	
Provision for impairment on loan and placement losses/average gross loans	7.35%	7.39%	0.04
90+ days past due loan volume (in HUF million)	83,742	81,995	(2)
90+ days past due loans/gross customer loans	15.8%	13.4%	(2.3)
Total provisions/90+ days past due loans	133.9%	154.5%	20.5
Performance Indicators	**2017**	**2018**	**pps**
ROA	4.6%	2.4%	(2.2)
ROE	21.0%	10.9%	(10.1)
Total income margin	20.91%	19.28%	(1.63)
Net interest margin	16.91%	15.21%	(1.70)
Cost/income ratio	42.5%	47.0%	4.5
Net loans to deposits (FX-adjusted)	117%	127%	11
FX rates	**2017 HUF**	**2018 HUF**	**Change %**
HUF/RUB (closing)	4.5	4.1	(10)
HUF/RUB (average)	4.7	4.3	(8)

- ***Starting from 1Q 2018 performance of Touch Bank is presented as part of OTP Bank Russia***
- ***HUF 16.4 billion after tax profit in 2018 (-13% y-o-y in local currency terms incorporating the net results of Touch Bank in the base period, too) corresponding to an ROE of 11%***
- ***Risk cost rate for 2018 stood at 7.4%. DPD90+ ratio decreased to 13.4%***
- ***The performing loan portfolio grew by 27% y-o-y (FX-adjusted, incorporating the loan portfolio of Touch Bank in the base period)***
- ***Net loan-to-deposit ratio grew to 127%***

Until the end of 2017 Touch Bank was part of OTP Bank Russia from legal point of view, and it was operating under the same banking license, but as a separate digital banking business line. In order to provide transparent information Touch Bank was presented as a separate virtual entity. However, due to changes in the governance and operation the separation of Touch Bank is no longer justified, therefore in the Business Report the performance of Touch Bank is presented from 2018 incorporated in the OTP Bank Russia performance. Until 2017 Touch Bank's performance was presented separately, therefore the table above does not contain information about the performance of Touch Bank for the respective periods.

The HUF denominated financial figures of OTP Bank Russia are distorted by the HUF/RUB moves: the 2018 closing RUB exchange rate showed y-o-y 10% devaluation against HUF, while the average 2018 rate showed a 8% y-o-y devaluation against HUF. Therefore local currency P&L and balance sheet dynamics can be materially different from those in HUF terms.

In 2018 **OTP Bank Russia** posted after-tax profit of HUF 16.4 billion, of which HUF -4.5 billion was Touch Bank's negative contribution.

As for the y-o-y development of the Russian performance it is worth incorporating the performance of Touch Bank into OTP Bank Russia's results also in the base period, so we analyse the y-o-y changes accordingly. The 2018 after tax profit showed a 13% y-o-y drop in RUB terms, as a result of 17% higher operating profit and 37% increase in risk cost.

Total income increased by 11% in RUB terms y-o-y, partly due to net interest income advancing by 8% fuelled by the 27% y-o-y growth of FX-adjusted performing loans (incorporating the loan portfolio of Touch Bank also in the base period), while net interest margin sank by about 1.5 pps to 15.2%. Net fee and commission income surged by 26% y-o-y (in RUB terms) due to the considerable growth of insurance fee income on cash loans and other products with insurance policies, and also due to higher commissions generated on the growing average credit card portfolio.

Operating expenses increased by 6% y-o-y in RUB terms (incorporating the expenses at Touch Bank also in the base period), partly reasoned by the one-off costs related to the write-off of Touch Bank's software that couldn't be utilised, and also by higher personnel expenses related to the layoff or integration into the Russian bank of former Touch Bank employees.

For the full year 2018 risk cost rate stood at 7.4%, slightly lower than in 2017 (incorporating Touch Bank as well). The FX-adjusted DPD90+ loan volume growth adjusted for the sales and write-offs amounted to HUF 36 billion in 2018. This underpins a 5% y-o-y increase (including Touch Bank in the base period), which is markedly less than the overall growth of the loan portfolio. The DPD90+ portfolio shrunk in 2018 owing to the sale and write-off of HUF 28.2 billion loans in 2018. The DPD90+ ratio declined to 13.4%. Stage 3 loans made up 13.8% of total gross loans at end-2018.

In 2018 the loan portfolio expansion continued, the FX-adjusted performing (DPD0-90) loans grew by 27% y-o-y (including Touch Bank in the base period). Within consumer loans cash loans and POS loans demonstrated the fastest growth (+48 and +26% y-o-y, respectively), owing to the +51 and +19% yearly surge in newly originated volumes. In the credit card loan segment the y-o-y expansion of the portfolio was also double digit.

Performing corporate loans increased 35% y-o-y, mainly due to the favourable development of large corporate loan and commercial factoring exposures.

In 2018 total deposits grew by 9% y-o-y (FX-adjusted), while the net loan-to-deposit ratio increased by 14 pps to 127% (incorporating Touch Bank in the base period). Liabilities to credit institutions grew by 57% y-o-y in RUB terms, mainly due to the higher volume of intragroup liabilities.

Touch Bank's contribution to the overall performance of OTP Bank Russia in 2018: profit after tax was -HUF 4.5 billion, operating expenses amounted to -HUF 6.8 billion, whereas total risk cost stood at -HUF 1.6 billion. Starting from May 2018 Touch Bank stopped selling own products, and the consolidation of the two operations is in progress. Until end-2018 almost 22 thousand former Touch Bank customers became client of OTP Bank Russia.

OTP BANKA HRVATSKA (CROATIA)

Performance of OTP banka Hrvatska (including Splitska banka):

Main components of P&L account	2017 HUF million	2018 HUF million	Change %
After tax profit without the effect of adjustments	17,105	24,961	46
Income tax	(3,742)	(5,638)	51
Profit before income tax	20,848	30,599	47
Operating profit	28,779	35,456	23
Total income	63,643	78,295	23
Net interest income	44,313	54,059	22
Net fees and commissions	12,603	16,042	27
Other net non-interest income	6,728	8,194	22
Operating expenses	(34,864)	(42,840)	23
Total provisions	(7,931)	(4,857)	(39)
Provision for impairment on loan and placement losses	(7,498)	(3,046)	(59)
Other provision	(434)	(1,811)	318
Main components of balance sheet closing balances	**2017**	**2018**	**%**
Total assets	1,821,613	1,837,158	1
Gross customer loans	1,121,938	1,178,848	5
Gross customer loans (FX-adjusted)	1,166,262	1,178,848	1
Retail loans	648,330	662,747	2
Corporate loans	498,462	498,332	0
Car financing loans	19,470	17,768	(9)
Allowances for possible loan losses	(63,752)	(71,186)	12
Allowances for possible loan losses (FX-adjusted)	(66,389)	(71,186)	7
Deposits from customers	1,395,087	1,424,746	2
Deposits from customer (FX-adjusted)	1,454,609	1,424,746	(2)
Retail deposits	1,033,638	1,049,946	2
Corporate deposits	420,971	374,800	(11)
Liabilities to credit institutions	132,765	85,702	(35)
Total shareholders' equity	238,935	269,126	13
Loan Quality	**2017**	**2018**	**%/pps**
Stage 3 loan volume under IFRS 9 (in HUF million)		89,059	
Stage 3 loans under IFRS 9/gross customer loans		7.6%	
Provision for impairment on loan and placement losses/average gross loans	0.85%	0.26%	(0.59)
90+ days past due loan volume (in HUF million)	74,325	65,011	(13)
90+ days past due loans/gross customer loans	6.6%	5.5%	(1.1)
Total provisions/90+ days past due loans	85.8%	109.5%	23.7
Performance Indicators	**2017**	**2018**	**pps**
ROA	1.3%	1.4%	0.1
ROE	9.3%	9.6%	0.3
Total income margin	4.70%	4.27%	(0.42)
Net interest margin	3.27%	2.95%	(0.32)
Cost/income ratio	54.8%	54.7%	(0.1)
Net loans to deposits (FX-adjusted)	76%	78%	2
FX rates	**2017 HUF**	**2018 HUF**	**Change %**
HUF/HRK (closing)	41.6	43.4	4
HUF/HRK (average)	41.4	42.3	2

- ***The integration of Splitska banka was completed in December***
- ***The Croatian operation posted HUF 25 billion in 2018.***
- ***Y-o-y lower net interest margin is explained mainly by the dilution effect of tighter margins at Splitska banka***
- ***Performing loan volumes expanded by 2% y-o-y, whereas deposits suffered similar drop in 2018 (on an FX-adjusted basis)***

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 in May 2017.

In December 2018 the integration of Splitska banka was successfully completed: Splitska banka d.d. merged into OTP banka Hrvatska dd., and the business and technology merger was completed.

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.

The **Croatian operation** (with Splitska banka) posted HUF 25 billion adjusted profit in 2018. The annual ROE stood at 9.6%.

The comparability of the financial performance on a yearly base is limited, as 2017 figures incorporated only eight months contribution from Splitska banka, as the consolidation happened in May 2017.

In 2018 the operating result improved by 23% y-o-y. Within that net interest income increased by 22% y-o-y in HUF terms. The decline in annual net interest margin (-32 bps) was mainly reasoned by the dilution effect of the lower margin at Splitska banka.

The annual net fee income surged by 27% y-o-y, and other net non-interest income increased by 22%, respectively.

In 2018 operating expenses increased by 39% y-o-y. During the whole year 52 branches were closed down. The number of employees (based on FTE) decreased by 33 persons. The cost-to-income ratio at the end of 2018 stood at 54.7%.

2018 total risk cost dropped by 39% against the base period, as a result the annual credit risk cost rate declined below 30 bps.

The volume of sold/written off loans volumes amounted to HUF 7 billion on an FX-adjusted basis. The DPD90+ ratio of the Croatian operation decreased to 5.5% (-1.1 pps y-o-y). The Stage 3 ratio under IFRS 9 stood at 7.6% at the end of 2018.

From a lending point of view, 2018 demonstrated a favourable picture: despite the ongoing integration process the volume of performing loans increased by 2% y-o-y.

Total deposit base shrank by 2% y-o-y. On a yearly base the increase in the volumes of retail site deposits somewhat offset the decline in term deposits. The corporate deposit volume erosion was related to deposit withdrawals by a couple of large clients.

OTP BANK UKRAINE

Performance of OTP Bank Ukraine:

Main components of P&L account	2017 HUF million	2018 HUF million	Change %
After tax profit without the effect of adjustments	14,120	24,415	73
Income tax	(2,954)	(4,760)	61
Profit before income tax	17,074	29,175	71
Operating profit	18,876	30,095	59
Total income	34,595	47,145	36
Net interest income	23,060	33,040	43
Net fees and commissions	9,716	11,444	18
Other net non-interest income	1,819	2,661	46
Operating expenses	(15,719)	(17,050)	8
Total provisions	(1,802)	(920)	(49)
Provision for impairment on loan and placement losses	(1,060)	(1,680)	59
Other provision	(742)	760	
Main components of balance sheet closing balances	**2017**	**2018**	**%**
Total assets	312,334	391,240	25
Gross customer loans	287,236	354,258	23
Gross customer loans (FX-adjusted)	314,914	354,258	12
Retail loans	120,845	127,413	5
Corporate loans	173,463	199,493	15
Car financing loans	20,607	27,352	33
Gross DPD0-90 customer loans (FX-adjusted)	231,810	300,724	30
Retail loans	48,545	75,922	56
Corporate loans	166,272	197,693	19
Car financing loans	16,993	27,109	60
Allowances for possible loan losses	(90,163)	(72,753)	(19)
Allowances for possible loan losses (FX-adjusted)	(98,746)	(72,753)	(26)
Deposits from customers	234,943	269,832	15
Deposits from customer (FX-adjusted)	256,762	269,832	5
Retail deposits	106,942	123,833	16
Corporate deposits	149,819	145,999	(3
Liabilities to credit institutions	33,985	48,197	42
Subordinated debt	0	4,903	
Total shareholders' equity	34,079	57,821	70
Loan Quality	**2017**	**2018**	**%/pps**
Stage 3 loan volume under IFRS 9 (in HUF million)		88,604	
Stage 3 loans under IFRS 9/gross customer loans		25.01%	
Provision for impairment on loan and placement losses/average gross loans	0.31%	0.51%	0.20
90+ days past due loan volume (in HUF million)	75,922	53,534	(29)
90+ days past due loans/gross customer loans	26.4%	15.1%	(11.3)
Total provisions/90+ days past due loans	118.8%	135.9%	17.1
Performance Indicators	**2017**	**2018**	**pps**
ROA	4.6%	6.8%	2.2
ROE	47.1%	55.6%	8.5
Total income margin	11.19%	13.15%	1.95
Net interest margin	7.46%	9.21%	1.75
Cost/income ratio	45.4%	36.2%	(9.3)
Net loans to deposits (FX-adjusted)	84%	104%	20
FX rates	**2017 HUF**	**2018 HUF**	**Change %**
HUF/UAH (closing)	9.2	10.1	10
HUF/UAH (average)	10.3	9.9	(4)

- ***Highest profitability within the Group (2018 ROE: 56%)***
- ***All-time-high yearly net earnings of HUF 24.4 billion (+78% in UAH terms) mainly as a result of improving operating profit and halving risk cost due to favourable credit quality trends***
- ***The DPD90+ ratio dropped significantly y-o-y due to write offs and sales (15.1%)***
- ***Performing loan volumes advanced by 30% y-o-y (FX-adjusted)***

The financial performance and indicators of OTP Bank Ukraine in HUF terms were affected by the HUF/UAH exchange rate moves: in 2018 the closing rate of UAH strengthened by 10% y-o-y. The yearly average rate weakened by 4% 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 24.4 billion adjusted after tax profit in 2018, marking a 73% increase compared to 2017 (+78% in local currency terms). The 2018 ROE reached 56%, the highest among subsidiary banks across the Group.

Given the significant HUF/UAH cross-currency moves y-o-y and q-o-q, we rather analyse the P&L developments in UAH terms.

In 2018 operating result surged by 64% y-o-y in UAH terms, the key reason was the 48% y-o-y increase in net interest income and a 21% surge in net fee and commission income. The y-o-y NII dynamics were positively influenced by the growing volume of performing loans (+30% y-o-y, FX-adjusted) and also by the average interest paid on deposits being stable in 2018 in spite of the higher interest rate environment, whereas interest rates realized on assets developed favourably. 2018 net interest margin advanced to 9.21% (+1.75 pps y-o-y).

In 2018 net fee and commission income surged by 21% y-o-y in local currency terms, supported by stronger fee income on corporate transactions and credit cards.

2018 operating expenses in UAH terms increased by 12% y-o-y mainly on the back of increasing personnel expenses amid 10.9% average inflation, whereas the average nominal wage inflation in Ukraine reached 25% (within that 29% in the financial sector).

For the whole year risk cost was almost half of the 2017 figure; provision for impairment on loan and placement losses to average gross loans increased by 20 bps to 0.5% y-o-y. Portfolio quality trends remained positive; the DPD90+ volumes (FX-adjusted and excluding the impact of loan sales and write-offs) grew in 2018 by HUF 4 billion.

During the last twelve months around HUF 40 billion equivalent non-performing loans were sold or written off. As a result, the DPD90+ ratio dropped to 15.1% (-11.3 pps y-o-y). The volume of Stage 3 loans within total gross loans was 25.0% at the end of 2018.

The FX-adjusted total performing loan book grew by 30% y-o-y. Within that especially the volume of retail loans grew dynamically (+56% y-o-y). The outstanding increase of consumer exposures (+87% y-o-y) was induced by credit card and POS volumes. Loan origination in 2018 was outstanding in the POS and cash loan segments (+80 and +133% in UAH terms y-o-y, respectively). Mortgage lending has not been resumed, thus the performing mortgage book eroded further (-36% y-o-y). Car financing has been re-started in 1Q 2017 and their FX-adjusted volumes surged by 60% y-o-y. Performing corporate exposures that represent two third of the total loan portfolio grew by 19% y-o-y. Alongside the steady disbursement activity in the corporate loan segment, the leasing also demonstrated significant uptick.

Deposits (adjusted for the FX-effect) grew by 5% y-o-y. As a result, the net loan-to-deposit ratio still reflects a balanced balance sheet structure (end-2018: 104%, +20 pps y-o-y, FX-adjusted).

The outstanding net intragroup funding towards the Ukrainian operation comprised USD 116 million equivalent at the end of 2018.

OTP BANK ROMANIA

Performance of OTP Bank Romania:

Main components of P&L account	2017 HUF million	2018 HUF million	Change %
After tax profit without the effect of adjustments	3,036	3,850	27
Income tax	(916)	(1,051)	15
Profit before income tax	3,952	4,902	24
Operating profit	9,346	10,585	13
Total income	27,138	30,759	13
Net interest income	19,779	23,410	18
Net fees and commissions	3,064	3,563	16
Other net non-interest income	4,295	3,786	(12)
Operating expenses	(17,792)	(20,174)	13
Total provisions	(5,394)	(5,683)	5
Provision for impairment on loan and placement losses	(5,062)	(4,794)	(5)
Other provision	(332)	(890)	168
Main components of balance sheet closing balances	**2017**	**2018**	**%**
Total assets	624,060	771,968	24
Gross customer loans	535,140	577,565	8
Gross customer loans (FX-adjusted)	557,425	577,565	4
Retail loans	394,082	398,007	1
Corporate loans	163,342	179,558	10
Allowances for possible loan losses	(56,909)	(35,444)	(38)
Allowances for possible loan losses (FX-adjusted)	(60,032)	(35,444)	(41)
Deposits from customers	337,691	434,937	29
Deposits from customer (FX-adjusted)	350,815	434,937	24
Retail deposits	262,980	331,920	26
Corporate deposits	87,835	103,017	17
Liabilities to credit institutions	196,377	232,391	18
Total shareholders' equity	53,481	60,047	12
Loan Quality	**2017**	**2018**	**%/pps**
Stage 3 loan volume under IFRS 9 (in HUF million)		51,771	
Stage 3 loans under IFRS 9/gross customer loans		9.0%	
Provision for impairment on loan and placement losses/average gross loans	0.9%	0.9%	(0.1)
90+ days past due loan volume (in HUF million)	72,133	29,583	(59.0)
90+ days past due loans/gross customer loans	13.5%	5.1%	(8.4)
Total provisions/90+ days past due loans	78.9%	119.8%	40.9
Performance Indicators	**2017**	**2018**	**pps**
ROA	0.5%	0.6%	0.1
ROE	6.8%	7.5%	0.7
Total income margin	4.49%	4.46%	(0.03)
Net interest margin	3.27%	3.39%	0.12
Cost/income ratio	65.6%	65.6%	0.0
Net loans to deposits (FX-adjusted)	142%	125%	(17)
FX rates	**2017 HUF**	**2018 HUF**	**Change %**
HUF/RON (closing)	66.6	69.0	4
HUF/RON (average)	68.9	69.6	1

- ***The Romanian subsidiary posted HUF 3.9 billion profit in 2018***
- ***The annual operating profit increased by 13% y-o-y as a result of increasing total income (+13% y-o-y) and higher operating expenses (+13% y-o-y)***
- ***Performing loan volumes (FX-adjusted) increased by 14% y-o-y supported by robust mortgage and SME lending dynamics***

OTP Bank Romania posted HUF 3.9 billion net profit in 2018, by 27% more than in the base period.

The annual operating profit improved by 13% y-o-y as a result of higher total income and higher operating expenses (both items surged by 13% each).

The annual net interest income improved by 18%y-o-y supported by increasing performing loan volumes, while annual net interest margin improved by 12 bps y-o-y in the increasing interest rate environment.

The annual net fee and commission income expanded by 16% y-o-y mainly as a result of higher deposit, transaction and card-related income. Other net non-interest income dropped by 12% y-o-y partially due to a loss on securities and property sales.

The annual operating expenses grew by 13% y-o-y, within that personnel expenses advanced even faster partially induced by wage inflation (in 2018 employers' average wage costs went up by more than 8% in the financial sector) and the average headcount growth (+7% y-o-y) reasoned by strengthening business activity. Furthermore, higher marketing, hardware and office equipment costs also added to the overall increase of operating expenses,.

The annual amount of total risk cost amounted to -HUF 5.7 billion, +5% y-o-y.

DPD90+ volumes (FX-adjusted, without sales and write-offs) declined by HUF 2.6 billion in 2018 (versus an increase of HUF 1.9 billion in 2017). During 2018 HUF 42 billion problem loans were sold/written off. The DPD90+ ratio declined to 5.1% (-8.4 pps y-o-y). The share of Stage 3 exposures represented 9.0% of total gross loans at the end of 2018.

The FX-adjusted performing loan volumes increased by 14% y-o-y supported both by the retail and corporate segments. Within the retail portfolio mortgage volumes demonstrated a 9% y-o-y growth, whereas SME volumes surged by 33% y-o-y. The large corporate exposure advanced by 17% y-o-y. As for annual new loan disbursements mortgage sales (+56% y-o-y) and the SME segment (+48% y-o-y) showed outstanding dynamics.

FX-adjusted deposit volumes increased by 29% y-o-y. The growth was supported by both retail and corporate inflows. The net loan-to-deposit ratio declined to 125%.

OTP BANKA SRBIJA (SERBIA)

Performance of OTP banka Srbija (including Vojvodjanska banka):

Main components of P&L account	2017 HUF million	2018 HUF million	Change %
After tax profit without the effect of adjustments	(2,904)	2,999	(203)
Income tax	109	(138)	(226)
Profit before income tax	(3,013)	3,137	(204)
Operating profit	1,360	6,227	358
Total income	10,071	30,306	201
Net interest income	7,235	20,514	184
Net fees and commissions	2,275	7,286	220
Other net non-interest income	561	2,507	347
Operating expenses	(8,711)	(24,079)	176
Total provisions	(4,373)	(3,090)	(29)
Provision for impairment on loan and placement losses	(3,133)	(3,146)	0
Other provision	(1,241)	56	(105)
Main components of balance sheet closing balances	2017	2018	%
Total assets	482,887	590,166	22
Gross customer loans	306,874	395,217	29
Gross customer loans (FX-adjusted)	319,010	395,217	24
Retail loans	162,255	185,641	14
Corporate loans	156,755	209,576	34
Allowances for possible loan losses	(19,759)	(14,774)	(25)
Allowances for possible loan losses (FX-adjusted)	(20,534)	(14,774)	(28)
Deposits from customers	349,553	372,961	7
Deposits from customer (FX-adjusted)	363,123	372,961	3
Retail deposits	248,029	260,623	5
Corporate deposits	115,094	112,338	(2)
Liabilities to credit institutions	38,397	117,169	205
Subordinated debt	2,505	0	(100)
Total shareholders' equity	80,070	84,848	6
Loan Quality	2017	2018	%/pps
Stage 3 loan volume under IFRS 9 (in HUF million)		18,819	
Stage 3 loans under IFRS 9/gross customer loans		4.8%	
Provision for impairment on loan and placement losses/average gross loans	2.64%	0.90%	(1.73)
90+ days past due loan volume (in HUF million)	28,372	15,322	(46.0%)
90+ days past due loans/gross customer loans	9.2%	3.9%	(5.4)
Total provisions/90+ days past due loans	69.6%	96.4%	26.8
Performance Indicators	2017	2018	pps
ROA	(2.0%)	0.6%	2.6
ROE	(9.5%)	3.7%	13.2
Total income margin	6.84%	5.84%	(1.00)
Net interest margin	4.92%	3.95%	(0.96)
Cost/income ratio	86.5%	79.5%	(7.0)
Net loans to deposits (FX-adjusted)	82%	102%	20
FX rates	2017 HUF	2018 HUF	Change %
HUF/RSD (closing)	2.6	2.7	4
HUF/RSD (average)	2.5	2.5	0

- ***The Serbian operation posted HUF 3 billion profit in 2018, out of which the contribution of Vojvodjanska banka comprised HUF 2.7 billion***
- ***The annual operating income reached HUF 6.2 billion, 61% of that came from Vojvodjanska banka***
- ***Performing loan volumes further increased (+31% y-o-y) supported by both the retail and corporate segments***

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 1st December 2017 and Vojvodjanska banka was consolidated.

The comparability of the financial performance on a yearly base is limited, as the contribution from Vojvodjanska banka was consolidated from December 2017.

The transaction on the purchase of Societe Generale banka Srbija announced on 20 December 2018 has not been completed yet, as a result 2018 financial statements incorporated neither the P&L nor the balance sheet of Societe Generale banka Srbija. The purchase price has not been made public on the request of the seller.

The Serbian P&L account was adjusted for the one-off items directly related to the acquisitions; 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 3 billion profit after tax in 2018 versus a loss of similar magnitude in the base period. Out of the annual profit Vojvodjanska banka added HUF 2.7 billion to the Serbian after tax profit.

The annual operating profit advanced by HUF 4.9 billion y-o-y and reached HUF 6.2 billion; out of the y-o-y improvement the contribution of Vojvodjanska banka comprised HUF 3.5 billion.

As for the yearly dynamics of income lines (adjusted by a one months contribution from Vojvdjanska banka in 2017) net interest income increased by 16% y-o-y as a result of stronger interest income on expanding performing loan volumes; net fees went up by 12% y-o-y due to improving deposit- and card-related fees.

The annual net interest margin dropped by 96 bps y-o-y and it was partly the result of the dilution effect through the consolidation of the lower margin Vojvodjanska banka.

Out of the total volume of operating expenses around HUF 16.2 billion was related to Vojvodjanska banka.

Credit quality trends remained favourable. Total risk costs in 2018 comprised -HUF 3.1 billion. Bulk of risk costs were booked in 3Q as a result of the introduction of new collateral appraisal rules which induced an additional HUF 1.8 billion lending related provision increase in case of individually appraised clients.

During 2018 there were HUF 14 billion non-performing portfolio sales or write-offs, occurring mainly in 2Q and 4Q. The DPD90+ ratio dropped to 3.9% at the end of 2018.The volume of Stage 3 exposures amounted to HUF 18.8 billion at the end of the year, which is 4.8% of total gross loans.

The yearly volume growth of the performing (DPD0-90) loan portfolio exceeded 31% demonstrating the most robust increase across the whole Group. The engine of growth was the corporate segment (+44% y-o-y, FX-adjsuted) as a result of strong underwriting dynamics, but the retail segment also supported the portfolio increase (+22% y-o-y).

The FX-adjusted deposit base expanded y-o-y (+3%). The yearly dynamics enjoyed inflows from the retail and SME segments.

As a result of the fast loan portfolio growth the net loan-to-deposit ratio of the Serbian operation surged by 20% y-o-y and closed around 100% which reflects a well-balanced balance sheet structure.

CRNOGORSKA KOMERCIJALNA BANKA (MONTENEGRO)

Performance of CKB:

Main components of P&L account	2017 HUF million	2018 HUF million	Change %
After tax profit w/o dividends and net cash transfer	(155)	2,214	
Income tax	(11)	(326)	
Profit before income tax	(144)	2,540	
Operating profit	1,802	2,605	45
Total income	9,709	10,729	11
Net interest income	6,543	7,529	15
Net fees and commissions	3,319	3,227	(3)
Other net non-interest income	(153)	(27)	(83)
Operating expenses	(7,907)	(8,125)	3
Total provisions	(1,947)	(65)	(97)
Provision for impairment on loan and placement losses	(864)	(46)	(95)
Other provision	(1,083)	(19)	(98)
Main components of balance sheet closing balances	2017	2018	%
Total assets	197,590	224,892	14
Gross customer loans	138,485	157,043	13
Gross customer loans (FX-adjusted)	143,562	157,043	9
Retail loans	75,662	73,027	(3)
Corporate loans	67,900	83,983	24
Car financing loans	0	33	
Allowances for possible loan losses	(38,899)	(28,265)	(27)
Allowances for possible loan losses (FX-adjusted)	(40,325)	(28,265)	(30)
Deposits from customers	152,316	175,740	15
Deposits from customer (FX-adjusted)	158,265	175,740	11
Retail deposits	121,092	131,227	8
Corporate deposits	37,173	44,513	20
Liabilities to credit institutions	17,962	2,364	(87)
Subordinated debt	0	0	
Total shareholders' equity	21,127	38,637	83
Loan Quality	2017	2018	%/pps
Stage 3 loan volume under IFRS 9 (in HUF million)		33,096	
Stage 3 loans under IFRS 9/gross customer loans		21.1%	
Provision for impairment on loan and placement losses/average gross loans	0.6%	0.0%	(0.6)
90+ days past due loan volume (in HUF million)	43,395	27,993	(35.5)
90+ days past due loans/gross customer loans	31.34%	17.82%	(13.5)
Total provisions/90+ days past due loans	89.6%	101.0%	11.3
Performance Indicators	2017	2018	pps
ROA	(0.1%)	1.1%	1.1
ROE	(0.7%)	7.3%	8.0
Total income margin	5.02%	5.09%	0.07
Net interest margin	3.38%	3.57%	0.19
Cost/income ratio	81.4%	75.7%	(5.7)
Net loans to deposits (FX-adjusted)	65%	73%	8
FX rates	2017 HUF	2018 HUF	Change %
HUF/EUR (closing)	310.1	321.5	4
HUF/EUR (average)	309.2	318.9	3

- ***In 2018 the Bank posted HUF 2.2 billion profit, which was supported by the substantial improvement of operating profit and the decline of risk costs***
- ***The annual operating profit increased by 45% y-o-y as a result of the total income increasing by 11% and the operating expenses by 3%, respectively***
- ***The FX-adjusted performing loan volume grew dynamically, by 31% y-o-y supported mainly by the corporate segment (+73% y-o-y)***
- ***The DPD90+ ratio (17.8%) declined by 13.5 pps y-o-y***

The Montenegrin **CKB Bank** posted HUF 2.2 billion after tax profit, versus HUF 0.2 billion loss in the base period. The improvement was mainly due to operating result increasing by 45% y-o-y and risk cost declining substantially.

The annual operating profit increased by 45% y-o-y as a result of the total income increasing by 11% and the operating expenses by 3%, respectively.

The annual net interest income grew by 15%: the dynamically increasing performing volumes had a positive impact. Furthermore, certain loan-related income previously booked within net fees and commissions was shifted into net interest income since January 2018 (HUF 0.3 billion y-o-y impact). The net interest margin improved by 19 bps y-o-y.

The annual net fee and commission income declined by 3%, without the above mentioned reclassification it would have increased by 6.5% y-o-y.

The annual operating expenses increased by 3% mainly due to the depreciation of Hungarian forint against the euro, the expenses in euro terms remained stable.

In 2018 total risk cost amounted to -HUF 0.1 billion. The DPD90+ ratio (17.8%) improved by 13.5 pps y-o-y. During 2018 HUF 15 billion non-performing loans were sold/written off. The share of Stage 3 exposures represented 21.1% of total gross loans at the end of 2018.

The FX-adjusted performing loan volume grew the second fastest in the Group, by 31% y-o-y. The strong dynamics were mainly related to the corporate segment. Within that the wholesale loan volumes increased by 30% y-o-y, municipality exposures – from a low base – increased more than four times y-o-y as a result of a large ticket loan disbursement towards the state in 2Q. The retail volumes expanded by 4% y-o-y in 2018, within that the mortgage loans by 10% y-o-y, respectively.

FX-adjusted deposit volumes increased by 11% y-o-y. The net loan-to-deposit ratio increased by 8 pps to 73%.

OTP BANKA SLOVENSKO (SLOVAKIA)

Performance of OTP Banka Slovensko*:

Main components of P&L account	2017 HUF million	2018 HUF million	Change %
After tax profit without the effect of adjustments	(2,051)	44	(102)
Income tax	(231)	(56)	(76)
Profit before income tax	(1,820)	100	(106)
Operating profit	6,616	2,598	(61)
Total income	17,452	15,014	(14)
Net interest income	13,358	11,148	(17)
Net fees and commissions	3,627	3,536	(3)
Other net non-interest income	467	330	(29)
Operating expenses	(10,836)	(12,416)	15
Total provisions	(8,436)	(2,498)	(70)
Provision for impairment on loan and placement losses	(8,358)	(2,579)	(69)
Other provision	(78)	81	(204)
Main components of balance sheet closing balances	**2017**	**2018**	**%**
Total assets	452,084	454,498	1
Gross customer loans	382,932	393,111	3
Gross customer loans (FX-adjusted)	396,969	393,111	(1)
Retail loans	343,023	340,776	(1)
Corporate loans	53,917	52,320	(3)
Allowances for possible loan losses	(28,098)	(31,582)	12
Allowances for possible loan losses (FX-adjusted)	(29,128)	(31,582)	8
Deposits from customers	343,924	360,069	5
Deposits from customer (FX-adjusted)	356,595	360,069	1
Retail deposits	330,742	331,734	0
Corporate deposits	25,853	28,336	10
Liabilities to credit institutions	10,020	22,725	127
Subordinated debt	6,205	8,691	40
Total shareholders' equity	32,200	29,382	(9)
Loan Quality	**2017**	**2018**	**%/pps**
Stage 3 loan volume under IFRS 9 (in HUF million)		35,916	
Stage 3 loans under IFRS 9/gross customer loans		9.1%	
Provision for impairment on loan and placement losses/average gross loans	2.17%	0.65%	(1.51)
90+ days past due loan volume (in HUF million)	35,968	29,160	(19)
90+ days past due loans/gross customer loans	9.4%	7.4%	(2.0)
Total provisions/90+ days past due loans	78.1%	108.3%	30.2
Performance Indicators	**2017**	**2018**	**pps**
ROA	(0.5%)	0.0%	0.5
ROE	(7.6%)	0.2%	7.7
Total income margin	3.90%	3.32%	(0.58)
Net interest margin	2.98%	2.47%	(0.52)
Cost/income ratio	62.1%	82.7%	20.6
Net loans to deposits (FX-adjusted)	103%	100%	(3)
FX rates	**2017 HUF**	**2018 HUF**	**Change %**
HUF/EUR (closing)	310.1	321.5	4
HUF/EUR (average)	309.2	317.5	3

* Note: P&L lines and performance indicators are adjusted for the banking tax, Deposit Protection Fund contributions and payments into the Resolution Fund.

- ***In 2018 the Bank posted HUF 44 million profit, after HUF 2.1 billion loss in 2017. Total risk costs dropped by 70%, while the operating profit fell by 61%***
- ***The FX adjusted performing loan volumes increased by 1% y-o-y***
- ***The DPD90+ ratio (7.4%) decreased by 2 pps y-o-y***

The **OTP Banka Slovensko** posted HUF 44 million after tax profit versus HUF 2.1 billion loss in the base period.

The annual profit was mainly shaped by decreasing risk costs (-70% y-o-y), while the operating profit also suffered a significant decline (-61% y-o-y): all income lines decreased, while the operating expenses increased by 15%. The net interest income declined by 17% y-o-y, because from 2018 certain items previously booked in net interest income do not appear on net interest income line (lower net interest income was coupled with lower risk costs). Furthermore, the new disbursements on lower interest rate also had a negative impact. The annual net interest margin declined by 52 bps.

The annual net fee and commission income decreased by 3% due to the lower income on deposits and loans.

The annual operating expenses increased by 15% y-o-y due to higher personnel expenses induced by wage inflation and increasing headcount, but also to higher marketing expenses.

The FX-adjusted performing loan volumes increased by 1% y-o-y, the mortgage and municipality loan volumes registered faster expansion (both +3% y-o-y). On the other hand the consumer and SME loans declined by 1% y-o-y in 2018. The strongest disbursement activity was realized at the SME and large corporate loan (+20% y-o-y) segments.

The DPD90+ ratio decreased to 7.4% (-2.0 pps y-o-y). In 2018 around HUF 8 billion equivalent non-performing loans were sold or written off as part of porfolio cleaning. The share of Stage 3 exposures represented 9.1% of total gross loans at the end of 2018. Total risk costs dropped significantly on a yearly basis (-70% y-o-y).

FX-adjusted deposit volumes increased by 1% y-o-y, thus the net loan-to-deposit ratio stood at 100% at the end of 2018.

STAFF LEVEL AND OTHER INFORMATION

	31/12/2017				31/12/2018			
	Branches	ATM	POS	Headcount (closing)	Branches	ATM	POS	Headcount (closing)
OTP Core	362	1,945	70,002	9,049	362	1,931	77,599	9,631
DSK Group	367	890	7,005	4,872	345	911	8,464	4,838
OTP Bank Russia[1] (w/o employed agents)	134	230	1,079	4,956	134	227	905	5,052
Touch Bank (Russia)	0	0	0	356	-	-	-	-
OTP Bank Ukraine (w/o employed agents)	85	115	382	2,224	87	149	351	2,313
OTP Bank Romania	96	139	4,351	1,163	95	139	4,556	1,273
OTP banka Hrvatska	196	528	10,765	2,430	144	480	10,360	2,397
OTP Banka Slovenko	62	148	276	674	62	151	232	690
OTP banka Srbija	157	254	5,098	2,103	154	248	5,554	1,996
CKB	29	91	4,070	429	28	103	4,572	419
Foreign subsidiaries, total	**1,126**	**2,395**	**33,026**	**19,206**	**1,049**	**2,408**	**34,994**	**18,977**
Other Hungarian and foreign subsidiaries				860				924
OTP Group (w/o employed agents)				**29,116**				**29,532**
OTP Bank Russia - employed agents				5,771				5,306
OTP Bank Ukraine - employed agents				747				760
OTP Group (aggregated)	**1,488**	**4,340**	**103,028**	**35,633**	**1,411**	**4,339**	**112,593**	**35,599**

[1] From 2018 OTP Bank Russia includes Touch Bank's figures, while until 4Q 2017 Touch Bank was showed as a separate entity.

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.
The Recommendations contain both recommendations that are binding for all organisations and non-binding proposals. Organisations may derogate both from binding recommendations and non-binding proposals. In the event of derogation from the recommendations, organisations are required to publish and justify the derogation in their corporate governance reports ('comply or explain'). This enables organisations to take industry and company-specific requirements into account. Accordingly, even organisations derogating from the recommendations can comply with corporate governance requirements under certain circumstances. Concerning the proposals, organisations should indicate whether they apply a given guideline or not, and they can also explain any derogation from the proposals.
OTP Bank Plc. provided positive answers to all recommendations and suggestions.

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 independent internal audit organisation has unrestricted access to information, documents and data necessary for conducting investigations, and is kept informed of changes in group structure, risks, and 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 report in respect of the operation of risk management, internal control mechanisms and corporate governance functions, and in accordance with the Credit Institutions Act annually reports to the Supervisory Board and the Board of Directors on the regularity of internal audit tasks, professional requirements and the conduct of audit, as well as on the review of compliance with the IT and other technical requirements for audits.

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.

Description of owner	Total equity					
	1 January 2018			31 December 2018		
	Ownership share	Voting rights[1]	Quantity	Ownership share	Voting rights[1]	Quantity
Domestic institution/company	20.04%	20.26%	56,116,209	19.32%	19.47%	54,092,340
Foreign institution/company	63.73%	64.44%	178,445,190	60.01%	60.49%	168,017,080
Domestic individual	3.92%	3.97%	10,988,183	3.53%	3.56%	9,896,546
Foreign individual	0.23%	0.23%	650,713	0.10%	0.10%	278,348
Employees, senior officers	0.80%	0.81%	2,250,991	0.85%	0.86%	2,376,450
Treasury shares[2]	1.09%	0.00%	3,063,853	0.80%	0.00%	2,242,143
Government held owner	0.08%	0.08%	226,012	0.08%	0.08%	219,072
International Development Institutions	0.03%	0.03%	70,502	0.05%	0.05%	143,308
Other[3]	10.07%	10.18%	28,188,357	15.26%	15.39%	42,734,723
TOTAL	**100.00%**	**100.00%**	**280,000,010**	**100.00%**	**100.00%**	**280,000,010**

[1] Voting rights in the General Meeting of the Issuer for participation in decision-making.
[2] Treasury shares do not include the OTP shares held by ESOP.
[3] Non-identified shareholders according to the shareholders' registry.

Number of treasury shares held in the year under review (2018)

	1 January	31 March	30 June	30 September	31 December
OTP Bank	990,293	997,581	633,956	543,770	168,583
Subsidiaries	2,073,560	2,073,560	2,073,560	2,073,560	2,073,560
TOTAL	3,063,853	3,071,141	2,707,516	2,617,330	2,242,143

Shareholders with over/around 5% stake as at 31 December 2018

Name	Number of shares	Ownership[1]	Voting rights[1,2]
MOL (Hungarian Oil and Gas Company Plc.)	24,000,000	8.57%	8.64%
KAFIJAT Ltd.	20,811,325	7.43%	7.49%
OPUS Securities S.A.	14,496,476	5.18%	5.22%
Groupama Group	14,338,498	5.12%	5.16%

[1] Rounded to two decimals
[2] Voting rights in the General Meeting of the Issuer for participation in decision-making.

Committees[6]

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
Mr. Olivier Péqueux
Dr. Márton Gellért Vági
Ms. Ágnes Rudas
Mr. András Michnai

Members of the Audit Committee
Dr. Gábor József Horváth – Chairman
Mr. Tibor Tolnay
Mr. Dominique Uzel
Mr. Olivier Péqueux
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

Mr. Dominique Uzel resigned his membership from the Supervisory Board and Audit Committee with effect from 13 April 2018.

The Annual General Meeting elected Mr. Olivier Péqueux 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 elected Olivier Péqueux 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 elected Deloitte Auditing and Consulting Ltd. (000083, H-1068 Budapest, Dózsa György út 84/c) as the Bank's auditor to audit OTP Bank Plc.'s separate and consolidated annual financial statements in accordance with International Financial Reporting Standards for the year 2018, from 1 May 2018 until 30 April 2019.

Based on the decision of the Board of Directors Dr. Zsolt Barna – possessing the necessary supervisory permission – was appointed as General Deputy Chief Executive Officer from 1 September 2018 to run the Group Governance and Operations Division.

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 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.

[6] Personal changes can be found in the „Personal and organizational changes" chapter.

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 7 meetings, while the Audit Committee gathered 2 times in 2018. In addition, resolutions were passed by the Board of Directors on 102, by the Supervisory Board on 48 and by the Audit Committee on 24 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 7 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 2018 is a group-level report that meets the GRI (Global Reporting Initiative) Standard and is certified by an independent third party. It is available at the Sustainability section of OTP Bank's website.

Commitment to society

Responsible financial services, credit risk management

Our products and services are aimed at helping our customers meet their needs and achieve their financial goals. We are always on the lookout for new opportunities, and are continuously working to improve our operations and services in order to better meet new challenges and demands. We remain reliable partners for our customers. Transparent and prudent operations are the cornerstone of all our activities, and maintaining the stability of the Banking Group is one of our most key priorities.

Security is also a top concern, with IT security specifically becoming increasingly prominent. We are focusing on the use of increasingly advanced security systems, and on raising awareness among our employees and customers. Our low number of security incidents—even by international standards—speaks for itself, and is proof of the effective operation of our security systems.

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 2018, we continued to pay special attention to customers facing payment difficulties. In addition to the government programmes available, we also provided credit protection services, as well as unique solutions tailored to individual customer needs. We have worked to simplify and clarify our notifications and statements in an effort to make it even easier for our customers to keep themselves informed. Our website now also includes information on special payment options available for those finding themselves facing unexpected life challenges.

OTP Group's clear objective is to serve its customers faultlessly. Our Complaint Management Regulation and Complaint Management Policy are available to view in our branches and on our website.

Customer complaint features, OTP Bank*	2018
Number of warranted complaints	101,858
Proportion of warranted complaints	65%
Compensation paid (HUF million)	59

* Also includes data for OTP Lakástakarék and OTP Jelzálogbank.

Accessibility

As part of our Accessibility Strategy, we are continuously working to make both OTP Bank's digital services and our physical branches more accessible. The improvements are implemented by OTP Bank via a number of dedicated projects in cooperation with many civil and professional organisations such as the Hungarian Association of the Deaf and Hard of Hearing, the IT Foundation for the Visually Impaired, the Speech Technology and Smart Interaction Laboratory of the Budapest University of Technology, as well as Hand in Hand Foundation.

Our homepage redesign also included integrated accessibility improvements, support for text-to-speech software, keyboard shortcuts and closed captioning for our video content.

In 2018, physical accessibility continues to be provided in all but one of our branches[7]. In one-third of our branches, we also have tactile signs for the convenience of the visually impaired. Our branch queue management system has offered the option to request special services for persons with reduced mobility or persons who are deaf or hard-of-hearing for several years now. In addition, we have added physical

[7] Accessibility is not feasible at a single branch due to the characteristics of its building and environment.

push-buttons with touch controls, as well as Braille signs providing further information. KONTAKT Interpreter Services are accessible at 43 of our branches nationwide, allowing a sign language interpreter to assist with administration tasks through live video chat. Induction loop amplifier systems are also available, and 25 of our high-traffic branches have employees who can serve customers using sign language.

As of the end of 2018, 250 of our ATMs now have text-to-speech software installed. After connecting the earphones, the ATMs automatically switch to "speech mode", and in addition to the on-screen information, the software will help customers use the device, manage the platform and find the keyboard and the cash slot.

In addition to improving the accessibility of our own environment, we also consider raising social awareness to be an important responsibility. 2018 saw us launching a nationwide awareness-raising campaign to draw attention to the importance of the issue, while also providing the public with useful, easy-to-implement, practical advice.

Citizenship

OTP Bank is one of the most generous charitable donors in Hungary. In 2018, we have given a total of HUF 2,027 million in charitable donations. Our focus continues to be on:

- developing financial literacy, attitude-shaping;
- sponsoring culture and the arts: creating and preserving values;
- creating equal opportunities: helping the disadvantaged and those in need; and
- sports.

We aim to provide actual and effective help by supporting programmes and causes that serve the interests of society as a whole. Our foundations play a prominent role in the efficient allocation of donations, boasting a high level of professionalism and results-oriented thinking that fully meets our company's standards. The OTP Fáy András Foundation provides financial and economic education services, with the management of the OK Educational Centre being a key element thereof. The Humanitas Social Foundation provides healthcare and education-related donations to vulnerable communities and individuals. In order to use resources efficiently and productively, we cooperate with several local non-governmental organizations, concentrating our donated funds and monitoring how they are used, and with what results.

Responsible employment

Our employees play a key role in OTP Bank's success. Our aim is to create an inspirational and supportive environment for our employees, where they can demonstrate their talent and competencies.

Ethical and compliant behaviour constitute the basic principles in our human resource management. The interests of our employees are represented by their trade union, with their Collective Agreement setting out their rights and obligations. In our Code of Conduct, our Bank declares its commitment to providing a safe and healthy working environment and states its expectation of mutual respect between executives and employees, including the prohibition of discrimination and harassment.

OTP Bank's employees (31 December 2018)	Total	Men	Women
Employees, total (no. of persons)	8,725	2,617	6,108
Distribution by gender:	100%	30%	70%
Fluctuation ratio*	13%	13%	13%

* compared to the end-of-year headcount; includes termination of employment both by employee and employer, as well as retirement

We use a number of tools to support the retention of our highly capable and dedicated employees. We believe it is vital to have a fair and uniform assessment system focusing on core competencies, and to provide career opportunities based on fully transparent principles and requirements. We consistently employ the principle of "equal pay for equal work". We consider the professional development of our employees to be a top priority. In addition to professional training and competence development, we also run a talent programme. We regularly evaluate our level of employee satisfaction. We encourage healthy lifestyle choices, offering a complex health insurance package and subsidizing recreation and sports. We provide options for flexible working hours and part-time employment, within the objective limitations enforced by the various duties as outlined in our job descriptions. In addition, an increasing number of our employees are able to partially work from home.

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 Regulation. The Regulation both ensures legal compliance, and aims to consider environmental criteria and integrate them into the Bank's business operations in order to minimize the environmental impacts of operating and maintaining the Bank's organization. The Regulation also sets out the rules on how to enforce the principles of sustainable procurement. OTP Group members operate in full compliance with environmental legislation and received no fines in 2018 either.

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 credit ratings of large corporate clients.

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. The refurbishment of heat centres and related energy efficiency efforts are a key priority in the ongoing renovation of branches and bank centres. As part of the renovation process, we are also replacing air conditioning units, ensuring that the new units use environmentally friendly coolants. OTP Bank's new head office building will have LEED Gold certification. In 2018, we made further progress by refurbishing 13 branches of the parent bank to use LED lighting. The use of LED lighting continued to gain ground in our Serbian, Russian and Ukrainian subsidiaries in 2018. Our Ukrainian subsidiary also introduced automatic power saving mode for computers that had been inactive for a long time.

We are intensifying our reliance on renewable energy due to financial considerations. We added a new solar panel to the solar arrays installed at OTP Bank's Hungarian branches in 2018. As a result, our systems generated a total of 1,996 GJ of solar power. The central archives facility owned by Monicomp Ltd. has been using geothermal energy for several years. We are planning to install additional heat pumps in 2019. The solar panels of the Croatian OTP banka Hrvatska generated a total of 144 GJ of solar power in 2018.

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. OTP Bank introduced CO_2 emission limits in its vehicle policy in 2018. However, last year both our number of vehicles and the total distance travelled saw a 10% increase, due to company cars becoming available to a larger segment of our workforce. The number of electric cars owned by OTP Bank remained 2.

It will be possible to cut down on the amount of business travel by using video conferencing, an option that we are using more and more each year. In 2018, the number of videoconferencing rooms increased in the parent bank, as well as in the Bulgarian, Romanian and Russian subsidiaries. We continue adding new bicycle storage facilities for our customers and employees; in 2018 we installed storage space for approximately 100 new bicycles at the central buildings of OTP Bank, with changing rooms and showers also available within the installations. 58% of our branches nationwide have bicycle storage facilities. Our Ukrainian subsidiary also expanded its number of bicycle storage facilities.

We present the energy consumption figures of OTP Bank. The Bank's overall energy consumption did not change compared to the previous year. However, due to our workforce expansion, this represents an 8% reduction in per capita energy consumption. Alongside the implementation of energy-efficient solutions, there has been an expansion in functions that consume energy (e.g. digital processes, more brightly lit workplaces, air conditioners, water dispensers), and our vehicle fleet has also been expanded.

Energy consumption quantities, OTP Bank	2018
Total energy consumption (GJ)	250,660
Per-capita energy consumption (GJ)	28.82

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

For several years now, OTP Group has been working to reduce paper use and printing both in internal processes and as regards the documents and account statements delivered to customers. However, legislative requirements and the expansion of our business have often counteracted this aim. In 2018, the extensive use of digital signature pads at OTP Bank, as well as a reduction in the amount of paper forms required by the branch network, helped reduce our paper consumption by almost 25% in total. Our Croatian subsidiary reduced their paper consumption by 50% compared to the previous year.

Paper usage quantities, OTP Bank	2018
Total paper quantities (t) (office, packaging, indirect)	733
Per capita paper use (kg)*	84

* The projection basis is the average statistical headcount.

OTP Bank has used recycled paper for its account statements and marketing publications for years, and uses recycled paper for some of its office paper needs. Our aim is to increase the proportion of the latter in the near future. Our Croatian subsidiary has been using recycled paper almost exclusively for several years.

Sustainable use and waste management

We follow a principle of using all our equipment, devices and machines for the longest reasonably possible time. We explicitly aim to use furniture up to the end of their lifecycle, using them multiple times and ensuring compatibility. 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. In 2018, OTP Bank donated 450 pieces of furniture and 150 computers.

The subsidiaries in Montenegro and Slovakia use toner refills to reduce toner and ink cartridge waste.

We have made several improvements in our methods of waste collection in 2018. All members of OTP Group collect and manage hazardous waste and paper containing business secrets selectively, in compliance with the law. In addition to selective collection of non-confidential paper waste and PET bottles in the central office buildings of OTP Bank, we have also provided selective waste collection facility for glass in the newly refurbished workplaces, including most of our central buildings. In 2018, our Serbian subsidiary has implemented the selective waste collection of used toner and paper. As from the end of 2018, our Romanian subsidiary performs selective waste collection of paper, metal, glass and plastic not only in the central building, but also in its branches. We implemented the conditions for selective paper waste collection in the central building of our Ukrainian subsidiary. The Croatian subsidiary has collected waste selectively for years, whereas the Slovak subsidiary provides for selective waste collection wherever locally facilitated by the municipality. DSK Bank operates selective waste collection at its sites in Sofia and Varna.

Attitude shaping

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

- In 2018, we continued to help 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 2018, the bank has made a charitable donation to Budapest for municipal cleaning purposes.
- In order to partially offset its paper use, our Slovakian subsidiary continued to plant one tree for every 50 packs of paper purchased in 2018. The Bank has also participated in "Our City", a volunteer project to improve the urban environment.
- Our Romanian subsidiary organised an internal competition in an effort to reduce internal printing by 20%. The three teams with the best performance have received prizes. Volunteers from the bank participated in the "Let's Do It, Romania!" rubbish collection day, as well as donating unused clothing to people in need.
- In 2018, CKB of Montenegro has once again taken part in nationwide forestation and environmental protection campaigns.
- Volunteers from our Croatian subsidiary participated in forestation efforts in areas that had suffered fire damage.
- Our subsidiary in Serbia sends regular e-mails to its employees to advocate environmental awareness.

Risks

OTP Bank continues to analyse and manage the risks pertaining to environmental protection, employment, the respect of human rights and the fight against corruption and bribery within its operational risk management and compliance processes. 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 backtested with quarterly frequency.

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.

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 7 reports were received in 2018, 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: 196 closed investigations, 1,190 proposals, 1,188 accepted proposals;
- Compliance with Budapest Stock Exchange (BSE) Recommendations (yes/no ratio): 85 yes, 0 no;
- Compliance: 4 audits, 2,908 reports due to suspicion of money laundering;
- Bank security: expected damages arising from crimes detected: HUF 995.2 1,103.9 million, prevented damages: HUF 4,479.2 1,779.2 million; reported charges: 2,582; the ratio of bank card abuses to the turnover is 2.8 times better than the European average (OTP Bank 0.0146%, European average 0.0450%);
- Ethics issues: 7 ethics reports, establishing ethics offense in 1 case.

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

The statutory audit of OTP Bank is carried out by Deloitte Auditing and Consulting Ltd., in addition to which the following services were contracted:

- Assurance engagements other than audits or reviews of historical financial information (ISAE 3000)
- Non-audit engagements relating to compliance with statutory regulations
- Engagements to perform agreed-upon procedures regarding financial information (AUP according to ISRS 4400)

SUPPLEMENTARY DATA

ADJUSTMENTS OF THE CONSOLIDATED IFRS BALANCE SHEET LINES

In the adjusted balance sheets presented in the analytical section of the 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.

in HUF million	2017 HUF million	2018 HUF million
Gross customer loans (incl. accrued interest receivables related to loans)	7,726,631	8,751,955
(-) Accrued interest receivables related to DPD90+ loans	36,212	32,613
Gross customer loans (incl. accrued interest receivables related to loans) (adjusted)	7,690,419	8,719,342
Allowances for loan losses	-738,797	-685,364
(-) Allocated provision on accrued interest receivables related to DPD90+ loans	-36,212	-32,613
Allowances for loan losses (adjusted)	-702,585	-652,751

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) Aggregated adjusted after tax profit of OTP Core, Corporate Centre and foreign banks.

(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 3Q 2010 the result and balance sheet of OTP Factoring Bulgaria EAD was included.

(5) From 1Q 2015 to 4Q 2017 the performance of OTP Bank Russia does not contain the volumes and financial result of Touch Bank. From 1Q 2015 the statement of recognised income and balance sheet of LLC MFO "OTP Finance" was included in the Russian performance.

(6) Touch Bank was part of OTP Bank Russia from legal point of view, and it was operating under the same banking license, but as a separate digital banking business line. In order to provide transparent information Touch Bank was presented as a separate virtual entity from 1Q 2015 to 4Q 2017.

(7) Banco Popolare Croatia was consolidated into OBH's results from 2Q 2014. Splitska banka was consolidated into OBH's results from 2Q 2017.

(8) 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 OTP Factoring Ukraine LLC was also aggregated.

(9) From 2Q 2010 the statement of recognised income and balance sheet of OTP Faktoring SRL was included. Banca Millennium was consolidated into OBR's results from 1Q 2015.

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

(11) Including the financial performance of OTP Factoring Montenegro d.o.o. (merged into CKB Bank in 4Q 2018).

(12) 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. Including the financial performance of OTP Faktoring Slovensko s.r.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. Merkantil Car was merged into Merkantil Bank in 3Q 2018.

(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 and OTP Solution Fund (Ukraine), OTP Asset Management SAI S.A. (Romania), DSK Asset Management EAD (Bulgaria).

(16) OTP Buildings s.r.o. (Slovakia), Velvin Ventures Ltd. (Belize), 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.

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 Financial 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 Recognised Income. The following adjustment items emerged in the period under review and the previous year: 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, and the initial NPV gain on the monetary policy interest rate swap (MIRS) deals.

  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 and losses on real estate transactions, Net insurance result (appearing in the accounting P&L structure from 3Q 2017), Gains and losses on derivative instruments, and Gains and losses on non-trading loans mandatorily at fair value through profit or loss lines, 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 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 were reclassified from the After tax dividends and net cash transfers line to the Net other non-interest result (adj.) without one-offs line.
- Other provisions are separated from other expenses and shown on a separate line in the adjusted profit or loss statement.
- 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.
- 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 recognized income, 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 financial transaction tax and Special tax on financial institutions line the in the adjusted P&L structure (due to the tax deductibility).

- 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.
- Performance indicators (such as cost/income ratio, net interest margin, risk cost to average gross loans as well as ROA and ROE ratios, etc.) 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, and the initial NPV gain on the monetary policy interest rate swap (MIRS) deals.
- 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)

	2018 HUF million	2017 HUF million
Net interest income	**624,723**	**553,755**
(-) Revaluation result of FX provisions	(44)	190
(+) Presentation of the revaluation result of intra-group swaps on the net interest income line realized at the Romanian and Slovakian operations	(116)	(103)
(-) Netting of interest revenues on DPD90+ loans with the related provision (booked on the Provision for loan losses line) at OTP Core and CKB	3,340	5,961
(-) Effect of acquisitions	795	847
(-) Initial NPV gain on the monetary policy interest rate swap (MIRS) deals	20,685	
Net interest income (adj.)	**599,832**	**546,654**
Net fees and commissions	**277,675**	**261,193**
(+) Financial Transaction Tax	(56,958)	(51,770)
(-) Effect of acquisitions	(14)	(5)
Net fees and commissions (adj.)	**220,731**	**209,428**
Foreign exchange result	**34,158**	**16,579**
(-) Revaluation result of FX positions hedging the revaluation of FX provisions	3,153	(4,350)
(-) Presentation of the revaluation result of intra-group swaps on the net interest income line realized at the Romanian and Slovakian operations	(2,598)	(814)
(-) Effect of acquisitions	34	122
Foreign exchange result (adj.)	**33,568**	**21,622**
Gain/loss on securities, net	**1,344**	**7,930**
Gain/loss on securities, net (adj.) with one-offs	**1,344**	**7,930**
(-) Revaluation result of the treasury share swap agreement (booked as Gain on securities, net (adj.) at OTP Core)	(1,117)	862
Gain/loss on securities, net (adj.) without one-offs	**2,461**	**7,068**
Gains and losses on real estate transactions	**1,890**	**2,093**
(+) Other non-interest income	**36,859**	**62,968**
(+) Gains and losses on derivative instruments	**6,458**	**5,291**
(+) Net insurance result	**673**	**410**
(+) Losses on loans measured mandatorily at fair value through other comprehensive income and on securities at amortized cost	**597**	
(-) Received cash transfers	575	584
(+) Received cash transfers within the framework of the subsidy programme targeting the expansion of POS network in Hungary	480	560
(-) Non-interest income from the release of pre-acquisition provisions	13,507	9,750
(+) Other other non-interest expenses	(6,537)	(9,666)
(+) Change in shareholders' equity of companies consolidated with equity method	246	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	2,482	712
(-) One-off impact of regulatory changes related to CHF consumer contracts in Croatia	(26)	(54)
(-) One-off impact of the CHF mortgage loan conversion programme and regulatory changes related to mortgage loans in Romania	(375)	(363)
(-) Impact of fines imposed by the Hungarian Competition Authority	0	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	(630)	(1,200)
Net other non-interest result (adj.) with one-offs	**25,134**	**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	**25,134**	**20,175**
Provision for impairment on loan and placement losses	**(39,287)**	**(40,848)**
(+) Non-interest income from the release of pre-acquisition provisions	13,507	9,750
(-) Revaluation result of FX provisions	(3,088)	4,144
(-) One-off impact of the CHF mortgage loan conversion programme and regulatory changes related to mortgage loans in Romania	(37)	1,777
(+) Netting of interest revenues on DPD90+ loans with the related provision (booked on the Provision for loan losses line) at OTP Core and CKB	3,340	5,961
(-) Effect of acquisitions	(33)	
Provision for impairment on loan and placement losses (adj.)	**(19,283)**	**(31,058)**
Dividend income	**5,736**	**4,152**
(+) Received cash transfers	575	584
(+) Paid cash transfers	(9,465)	(11,496)
(-) Sponsorships, subsidies and cash transfers to public benefit organisations	(9,449)	(11,495)
(-) Received cash transfers within the framework of the subsidy programme targeting the expansion of POS network in Hungary	480	560
(-) Dividend income of swap counterparty shares kept under the treasury share swap agreement	5,111	3,082
(-) Change in shareholders' equity of companies consolidated with equity method	246	413
After tax dividends and net cash transfers	**457**	**680**
Depreciation	**(57,437)**	**(49,493)**
(-) Goodwill impairment charges	(5,962)	(504)
(-) Effect of acquisitions	(3,266)	(2,507)
Depreciation (adj.)	**(48,210)**	**(46,482)**
Personnel expenses	**(251,041)**	**(213,886)**
(-) Effect of acquisitions	(1,594)	(287)
Personnel expenses (adj.)	**(249,447)**	**(213,599)**

	2018 HUF million	2017 HUF million
Income taxes	**(33,837)**	**(41,503)**
(-) Corporate tax impact of goodwill/investment impairment charges	1,233	(5,561)
(-) Corporate tax impact of the special tax on financial institutions	1,562	1,561
(+) Tax deductible transfers (offset against corporate taxes)	(2,057)	(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	573	(2,298)
(-) Corporate tax impact of the initial NPV gain on the monetary policy interest rate swap (MIRS) deals	(1,862)	
Corporate income tax (adj.)	**(37,400)**	**(37,350)**
Other operating expense	**(25,387)**	**(51,230)**
(-) Other costs and expenses	(7,152)	(5,795)
(-) Other non-interest expenses	(16,002)	(21,162)
(-) Effect of acquisitions	1,606	(9,504)
(-) Revaluation result of FX provisions	(21)	16
(-) One-off impact of regulatory changes related to CHF consumer contracts in Croatia	26	54
(-) One-off impact of the CHF mortgage loan conversion programme and regulatory changes related to mortgage loans in Romania	411	(1,414)
(-) 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	630	1,200
Other provisions (adj.)	**(6,885)**	**(14,624)**
Other administrative expenses	**(264,804)**	**(236,072)**
(+) Other costs and expenses	(7,152)	(5,795)
(+) Other non-interest expenses	(16,002)	(21,162)
(-) Paid cash transfers	(9,465)	(11,496)
(+) Film subsidies and cash transfers to public benefit organisations	(9,449)	(11,495)
(-) Other other non-interest expenses	(6,537)	(9,666)
(-) Special tax on financial institutions (recognised as other administrative expenses)	(16,848)	(16,794)
(-) Tax deductible transfers (offset against corporate taxes)	(2,057)	(2,162)
(-) Financial Transaction Tax	(56,958)	(51,770)
(-) Effect of acquisitions	(4,945)	(931)
Other non-interest expenses (adj.)	**(199,161)**	**(181,706)**

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

	2018 HUF million	2017 HUF million	Change %
Loans	141,536	120,960	17
Placements with other banks	69,947	47,776	46
Amounts due from banks and balances with the National Banks	280	1,403	(80)
Securities at fair value through other comprehensive income	31,628	30,100	5
Securities at amortized cost	47,342	44,737	6
Interest income	*290,733*	*244,976*	*19*
Interest expense due to banks and on deposits from the National Banks	(53,993)	(56,893)	(5)
Deposits from customers	(26,634)	(9,244)	188
Liabilities from issued securities	(157)	(151)	4
Subordinated bonds and loans	(2,994)	(3,033)	(1)
Interest expense	*(83,778)*	*(69,321)*	*21*
Net interest income	**206,955**	**175,655**	**18**
Provisions for loans	(6,927)	(7,807)	(11)
Provisions on placements	(895)	32	
Provision for impairment on loan and placement losses	(7,822)	(7,775)	1
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES	199,133	167,880	19
Income from fees and commissions	212,556	206,759	3
Expense from fees and commissions	(34,339)	(30,355)	13
NET PROFIT FROM FEES AND COMMISSIONS	178,217	176,404	1
Foreign exchange gains and losses	9,510	4,555	109
Losses / Gains on securities, net	1,960	7,946	(74)
Losses on loans measured mandatorily at fair value through other comprehensive income and on securities at amortized cost	625	0	
Gains on real estate transactions	219	222	0
Dividend income	68,481	82,638	(17)
Gains and losses on derivative instruments	3,706	2,030	83
Other operating income	4,960	9,768	(49)
Other operating expense	(5,023)	71,359	(107)
NET OPERATING GAIN	84,438	178,519	(53)
Personnel expenses	(104,819)	(90,444)	16
Depreciation	(21,232)	(20,528)	4
Other administrative expenses	(151,104)	(141,455)	7
OTHER ADMINISTRATIVE EXPENSES	(277,155)	(252,427)	10
PROFIT BEFORE INCOME TAX	**184,633**	**270,417**	**(32)**
Income tax expense	(11,191)	(18,867)	(41)
NET PROFIT FOR THE PERIOD	**173,442**	**251,550**	**(31)**
From this, attributable to non-controlling interest	0	0	
FROM THIS, ATTRIBUTABLE TO OWNERS OF THE COMPANY	**173,442**	**251,550**	**(31)**

[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]

	2018 HUF million	2017 HUF million	Change %
Cash, amounts due from Banks and balances with the National Banks	360,855	399,124	(10)
Placements with other banks, net of allowance for placement losses	1,074,840	978,098	10
Financial assets at fair value through profit or loss	155,042	303,927	(49)
Securities at fair value through other comprehensive income	1,451,905	1,735,902	(16)
Loans at amortized cost and fair value	2,618,863	2,145,046	22
Associates and other investments	1,177,573	967,414	22
Securities at amortized costs	1,431,789	1,043,779	37
Tangible and intangible assets	112,658	100,537	12
Other assets	122,663	98,055	25
TOTAL ASSETS	**8,506,188**	**7,771,882**	**9**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	738,036	694,533	11
Deposits from customers	5,741,498	5,192,869	11
Liabilities from issued securities	46,694	60,304	(23)
Financial liabilities at fair value through profit or loss	32,231	-	-
Derivative financial liabilities designated as held for trading	82,838	79,545	4
Other liabilities	243,495	210,539	16
Subordinated bonds and loans	110,454	108,835	1
TOTAL LIABILITIES	**6,995,246**	**6,346,625**	**10**
Share capital	28,000	28,000	0
Retained earnings and other reserves without earnings	1,311,464	1,155,247	14
Profit or loss for the financial year according to the balance sheet	173,442	251,550	(31)
Treasury shares	(1,964)	(9,540)	(79)
TOTAL SHAREHOLDERS' EQUITY	**1,510,942**	**1,425,257**	**6**
TOTAL LIABILTITIES AND SHAREHOLDERS' EQUITY	**8,506,188**	**7,771,882**	**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]

	2018 HUF million	2017 HUF million	Change %
Loans	576,053	521,121	11
Placements with other banks	72,401	42,686	70
Amounts due from banks and balances with the National Banks	421	1,444	(71)
Securities at fair value through other comprehensive income	37,912	34,442	10
Securities at amortized cost	59,899	56,343	6
Other interest income	11,272	10,479	8
Interest income	*757,958*	*666,515*	*14*
Interest expense due to banks and on deposits from the National Banks	(47,979)	(46,475)	4
Deposits from customers	(69,387)	(50,995)	36
Liabilities from issued securities	(6,343)	(5,727)	11
Subordinated bonds and loans	(2,169)	(2,259)	(4)
Other	(7,357)	(7,303)	1
Interest expense	*(133,235)*	*(112,759)*	*18*
Net interest income	**624,723**	**553,756**	**13**
Provisions for loans	(39,143)	(40,620)	(4)
Provisions on placements	(144)	(228)	(37)
Provision for impairment on loan and placement losses	(39,287)	(40,848)	(4)
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES	585,436	512,908	14
Income from fees and commissions	338,081	315,606	7
Expense from fees and commissions	(60,405)	(54,413)	11
NET PROFIT FROM FEES AND COMMISSIONS	277,676	261,193	6
Foreign exchange gains and losses	34,157	16,579	106
Losses / Gains on securities, net	1,345	7,930	(83)
Losses on loans measured mandatorily at fair value through other comprehensive income and on securities at amortized cost	597	0	
Gains on real estate transactions	1,890	2,093	(10)
Dividend income	5,736	4,152	38
Net insurance result	673	409	64
Gains and losses on derivative instruments	6,458	5,291	22
Other operating income	36,859	62,968	(41)
Other operating expense	(25,387)	(51,230)	(50)
NET OPERATING GAIN	62,328	48,191	29
Personnel expenses	(251,041)	(213,886)	17
Depreciation	(57,437)	(49,492)	16
Other administrative expenses	(264,803)	(236,072)	12
OTHER ADMINISTRATIVE EXPENSES	(573,281)	(499,450)	15
PROFIT BEFORE INCOME TAX	**352,159**	**322,842**	**9**
Income tax expense	(33,837)	(41,503)	(18)
NET PROFIT FOR THE PERIOD	**318,322**	**281,339**	**13**
From this, attributable to non-controlling interest	89	197	(55)
FROM THIS, ATTRIBUTABLE TO OWNERS OF THE COMPANY	**318,233**	**281,142**	**13**

[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]

	2018 HUF million	2017 HUF million	Change %
Cash, amounts due from Banks and balances with the National Banks	1,547,272	1,198,045	29
Placements with other banks, net of allowance for placement losses	420,606	462,180	(9)
Financial assets at fair value through profit or loss	181,356	344,417	(47)
Securities at fair value through other comprehensive income	1,883,849	2,174,718	(13)
Loans at amortized cost and fair value	8,066,593	6,987,834	15
Associates and other investments	17,591	12,269	43
Securities at amortized costs	1,740,520	1,310,331	33
Tangible and intangible assets	420,484	413,390	2
Other assets	312,017	287,044	9
TOTAL ASSETS	**14,590,288**	**13,190,228**	**11**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	360,475	472,068	(17)
Deposits from customers	11,285,085	10,233,471	10
Liabilities from issued securities	417,966	250,320	67
Financial liabilities at fair value through profit or loss	32,231	-	-
Derivative financial liabilities designated as held for trading	73,316	69,874	5
Other liabilities	513,129	448,412	14
Subordinated bonds and loans	81,429	76,028	7
TOTAL LIABILITIES	**12,763,631**	**11,550,173**	**11**
Share capital	28,000	28,000	0
Retained earnings and other reserves without earnings	1,545,971	1,390,737	11
Profit or loss for the financial year according to the balance sheet	318,233	281,142	13
Treasury shares	(67,999)	(63,289)	7
Non-controlling interest	2,452	3,465	(29)
TOTAL SHAREHOLDERS' EQUITY	**1,826,657**	**1,640,055**	**11**
TOTAL LIABILTITIES AND SHAREHOLDERS' EQUITY	**14,590,288**	**13,190,228**	**11**

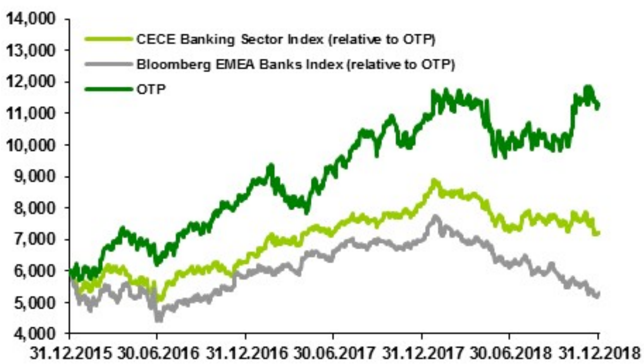
[1] The rows of the table are based on audited numbers, but some rows differ from audited data (merged or different level of aggregation).

BUSINESS REPORT
OTP BANK (CONSOLIDATED)

CONSOLIDATED FINANCIAL HIGHLIGHTS[8] AND SHARE DATA

Main components of the Statement of recognised income	2017 HUF million	2018 HUF million	Change %
Consolidated after tax profit	**281,339**	**318,322**	**13**
Adjustments (total)	**(2,733)**	**(7,013)**	**157**
Consolidated adjusted after tax profit without the effect of adjustments	**284,072**	**325,335**	**15**
Pre-tax profit	321,421	362,734	13
Operating profit	363,159	384,908	6
Total income	804,946	881,726	10
Net interest income	546,654	599,832	10
Net fees and commissions	209,428	220,731	5
Other net non-interest income	48,864	61,163	25
Operating expenses	(441,788)	(496,818)	12
Total risk costs	(45,682)	(26,167)	(43)
One off items	3,945	3,993	1
Corporate taxes	(37,349)	(37,400)	0
Main components of balance sheet closing balances	2017	2018	%
Total assets	13,190,228	14,590,288	11
Total customer loans (net, FX adjusted)	**7,116,207**	**8,066,592**	**13**
Total customer loans (gross, FX adjusted)	**7,835,162**	**8,719,342**	**11**
Allowances for possible loan losses (FX adjusted)	(718,955)	(652,751)	(9)
Total customer deposits (FX adjusted)	**10,436,537**	**11,285,085**	**8**
Issued securities	250,320	417,966	67
Subordinated loans	76,028	81,429	7
Total shareholders' equity	1,640,055	1,826,657	11
Indicators based on adjusted earnings	2017	2018	pps
ROE (from accounting net earnings)	18.5%	18.7%	0.2
ROE (from accounting net earnings, on 12.5% CET1 ratio)	22.4%	23.2%	0.8
ROE (from adjusted net earnings)	18.7%	19.1%	0.4
ROA (from adjusted net earnings)	2.4%	2.3%	0.0
Operating profit margin	3.03%	2.76%	(0.26)
Total income margin	6.71%	6.33%	(0.38)
Net interest margin	4.56%	4.30%	(0.25)
Cost-to-asset ratio	3.68%	3.57%	(0.12)
Cost/income ratio	54.9%	56.3%	1.5
Provision for impairment on loan and placement losses-to-average gross loans ratio	0.43%	0.23%	(0.20)
Total risk cost-to-asset ratio	0.38%	0.19%	(0.19)
Effective tax rate	11.6%	10.3%	(1.3)
Net loan/(deposit+retail bond) ratio (FX adjusted)	68%	72%	3
Capital adequacy ratio[9] (consolidated, IFRS) - Basel3	14.6%	18.3%	3.6
Tier1 ratio - Basel3	12.7%	16.5%	3.8
Common Equity Tier1 ('CET1') ratio - Basel3	12.7%	16.5%	3.8
Share Data	2017	2018	%
EPS diluted (HUF) (from unadjusted net earnings)	1,074	1,215	13
EPS diluted (HUF) (from adjusted net earnings)	1,085	1,242	14
Closing price (HUF)	10,720	11,290	5
Highest closing price (HUF)	10,930	11,850	8
Lowest closing price (HUF)	7,815	9,600	23
Market Capitalization (EUR billion)	9.7	9.8	2
Book Value Per Share (HUF)	5,857	6,524	11
Tangible Book Value Per Share (HUF)	5,219	5,921	13
Price/Book Value	1.8	1.7	(5)
Price/Tangible Book Value	2.1	1.9	(7)
P/E (trailing, from accounting net earnings)	10.7	9.9	(7)
P/E (trailing, from adjusted net earnings)	10.6	9.7	(8)
Average daily turnover (EUR million)	15	18	20
Average daily turnover (million share)	0.5	0.5	0

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'S RATING

OTP Bank Russia - Long term credit rating — BB

[8] 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.

[9] The 2018 consolidated after tax profit less dividend proposal was incorporated into the own funds when calculating the 4Q 2018 consolidated capital adequacy ratios presented in the Business Report.

MANAGEMENT'S ANALYSIS OF THE FULL-YEAR 2018 RESULTS OF OTP GROUP

Out of the last few decades in 2018 the Hungarian economy had its most successful year. Apart from absolute figures turning to be impressive – according to the preliminary crude data published on 14 February 2019 the full year expansion was 4.8%, the fiscal deficit remained well below the originally targeted 2% level, public debt to GDP dropped below 71% –, the whole economy became structurally healthier with the growth being shaped mainly by local consumption and dynamically expanding investments.

The average inflation was 2.8% in 2018, however the core inflation excluding indirect taxes, an indicator closely watched by the Central Bank came close to 3% by the end of the year.

In 2018 both the Hungarian Forint and local government yields demonstrated significant volatility, however in the second half of the year the HUF gained strength and yields tightened.

The all-time low unemployment rate (October-December: 3.6%) coupled with dynamic wage increase resulted in a robust increase of household lending activity: as for the local banking sector newly originated retail volumes surged by 37.5% y-o-y as a result outstanding volumes increased by 6.7%, respectively (within that housing loan volumes grew by 10%, cash loan portfolio by 37.4%, whereas home equity exposure dropped by 12.9% y-o-y). Corporate loan volumes advanced by 14.8% y-o-y.

The Government and the Central Bank assisted upholding the dynamic lending activity, as well as containing the interest rate exposure of clients through targeted measures. Within the macroprudential policy toolset of NBH the modification of the so-called debt break (payment to income ratio) rules effective from October 2018 encouraged clients to shift to longer interest rate fixation periods while underwriting mortgages. As a result, by the end of 2018 the weight of fixed rate mortgages with a fixing period of one year and beyond exceeded 90% within the new flow on a sector level. With a specific objective to raise the proportion of long-term, fixed-rate lending to SMEs, on 18 September 2018 NBH announced its Funding for Growth Scheme Fix with a total amount of HUF 1,000 billion available from January 2019 under preferential rates for the sector.

Amid the supportive macroeconomic environment the volume of non-performing exposures, as well as their ratio dropped significantly.

As a result of the favourable developments in February 2019 both S&P and Fitch upgraded the Hungarian sovereign rating (to 'BBB' in both cases with stable outlook).

With regard to the Group, all national economies within OTP universe enjoyed GDP growth and favourable macroeconomic conditions. Positive developments were rewarded by rating upgrades in several cases (Bulgaria, Serbia, Croatia, Ukraine, and Russia). At the same time the Ukrainian and Romanian central banks had to hike rates during the course of the year in order to curb inflation and fiscal overheatedness; the Central Bank of Russia also tightened monetary conditions in 2H 2018. The Ukrainian hrivnya and the Russian ruble suffering from significant volatility during the last few years on a yearly average weakened by 3.6 and 8.2% y-o-y against HUF in 2018.

Consolidated earnings: HUF 325.3 billion (above EUR 1 billion) adjusted after tax profit in 2018, robust business activity and volume expansion, moderate erosion of NIM, further declining risk costs and steadily improving portfolio quality

OTP Group posted all-time high accounting and adjusted profit in 2018 shaped by a couple of factors: on the back of the favourable macroeconomic performance of the region business activity got further boost, as a result FX-adjusted performing loan volumes expanded by 15% y-o-y, an outstanding dynamics even in European context. Furthermore, credit quality improved further coupled with lower or in certain cases even with positive annual risk costs. Higher core banking revenues realized on increasing performing portfolio could easily offset the negative impact of eroding margins induced by the stubbornly low interest rate environment, tighter regulatory requirements and intensifying competition. Also, bottom line earnings got a meaningful lift from incorporating the full year profit in case of the Croatian and Serbian operations. Recall: in the base period only eight months profit from Splitska banka and one month profit from Vojvodjanska banka supported the Group's earnings.

In 2018 OTP Bank continued its regional acquisition activity: in August it announced the purchase of Sociéte Generale's Bulgarian and Albanian operations, followed by the Serbian operation in December. The Bulgarian transaction was completed on 15 January, while the Albanian and Serbian transactions are expected to be settled in 1H 2019. Accordingly, 2018 financial statements include neither the balance sheet, nor the profit or loss statement of any of those individual entities.

The full year consolidated accounting profit was HUF 318.3 billion versus HUF 281.3 billion in the base period.

The accounting ROE for 2018 stood at 18.7% (+0.2 pp y-o-y), whereas the adjusted ROA (2.3%) remained practically unchanged y-o-y.

During the course of the year total adjustment items comprised -HUF 7 billion (after tax), the below items should be mentioned:

- +HUF 18.8 billion (after tax) gain was realized on MIRS (Monetary Policy Interest Rate Swap) facilities.

  Background: according to the decision by the Monetary Council (MC) of the National Bank of Hungary on 21 November 2017 the MC introduced an unconditional interest rate swap (IRS) facility, with 5 and 10 years maturity, and set the allocated amount at HUF 300 billion for the first quarter of 2018. Counterparty banks could access the IRS facility on regular tenders from the beginning of January 2018. In line with the fine-tuning of the unconventional policy instruments affecting long-term yields, on 18 September 2018 MC decided on phasing out the monetary policy IRS facilities by the end of 2018. The Council set the annual maximum volume of monetary policy IRS for 2018 at HUF 1,100 billion.

  Until November 2018 – in coordination with the auditor – the initial positive net present value (NPV) gained on MIRS deals was accrued for the whole maturity of MIRS transactions within the net interest income. In December 2018 NBH published guidelines on its website (https://www.mnb.hu/letoltes/mirs.pdf), according to which those swap facilities were unconditional, therefore in NBH's opinion there was no such binding criteria within the conditions that would require the accrual of NPVs.

  Taking into consideration the NBH's guidelines, OTP Bank – with the consent of the auditor – decided to book the total initial positive NPVs in one lump sum within its P&L. As a result, in the adjusted P&L structure the total HUF 20.7 billion (before tax) gain realized in 2018 as a whole was presented in 4Q 2018 within adjustment items on the *Initial NPV gain on the monetary policy interest rate swap (MIRS) deals* line.

  The reported adjusted net interest income for the first three quarters of 2018 contained the accrued gains related to MIRS for that periods, whereas in 4Q 2018 that cumulated amount was recognized with a negative sign within net interest income in the adjusted income statement. Since the first nine months accrued gain was not material, it didn't have a substantial impact on the quarterly development in the adjusted net interest income of OTP Core;

- in 2018 the banking taxes paid by Group members resulted in an after tax negative impact of HUF 15.3 billion, including the Hungarian special tax of financial institutions and the Slovakian banking levy;

- -HUF 4.7 billion (after tax) tax shield related partly to the recognition or reversal of impairment charges booked in relation to investments in certain subsidiaries; also there was goodwill write-off;

- -HUF 6.8 billion effect of acquisitions;

- +HUF 0.5 billion related to the revision of the fine imposed by the Hungarian Competition Authority (GVH) back in 2013. In 2016 the Hungarian Supreme Court obliged GVH to conduct a new process, as a result GVH set a lower fine for OTP Bank in August 2018 (HUF 1,435 billion). Simultaneously, OTP Bank released provision set aside earlier for that purpose.

2018 income statement already incorporated the full-year profit contribution by both Splitska banka and Vojvodjanska banka. The integration of Splitska banka (the legal merge and IT integration) was completed in December 2018.

In 2018 OTP Group posted HUF 325.3 billion adjusted after-tax profit (+15% y-o-y). The effective tax rate declined by 1.3 pps to 10.3%. The before tax profit grew by 13% compared to the base year.

Within the annual profit – given their individual weight – profit contribution from OTP Core (HUF 180 billion), DSK Bank (HUF 47.3 billion), the Croatian operation (HUF 25 billion), the Ukrainian (HUF 24.4 billion) and Russian subsidiaries (HUF 16.4 billion) was the most meaningful. Out of those banks only the Russian subsidiary suffered a y-o-y profit decline, while others enjoyed their profits improving y-o-y, of which Ukraine was the ultimate winner (+73% y-o-y, annual ROE: 56%). Regarding the Russian performance one should note that the loss-making Touch Bank was shown as a separate entity in 2017, however, starting from 2018, it was presented as part of the Russian operation. So, including Touch Bank's result in the base period, too, the Russian operation suffered a y-o-y 13% profit decline in RUB terms.

As for other subsidiaries, the Leasing segment posted again a decent profit (HUF 9.9. billion), whereas the weaker net earnings at OTP Fund Management were reasoned by the lower success fee. The Romanian, Serbian and Montenegrin subsidiaries posted a significant profit improvement y-o-y, whereas the Slovakian subsidiary realized a marginal profit against a loss in 2017.

As a result, the 2018 profit contribution of foreign subsidiaries increased from 35% to 38% y-o-y.

Annual total income of OTP Group increased dynamically (+10% y-o-y, +6% without acquisition effect[10]). The annual operating profit improved by 6% y-o-y, whereas total risk costs dropped by 43%.

It was positive that despite the continuing margin erosion and intensifying competition the annual net interest income advanced by 10% y-o-y (without acquisitions by 6%) due to the higher volumes of performing loans. The net fee and commission income grew by 5% compared to 2017 (+2% without acquisitions), the pace of its increase fell short of the business volume expansion and the reasons were mainly related to the Hungarian operation: on one hand the distribution fees on certain household targeted government bonds were reduced in several steps by the Government Debt Management Agency, also, the fee income at OTP Fund Management dropped a lot y-o-y as a result of lower success fees.

Other net non-interest income advanced by HUF 12.3 billion (+25% y-o-y) induced partially by the consolidation of full year contribution from Splitska and Vojvodjanska banka. Also, FX-gains supported this line in a meaningful way.

The consolidated net interest margin was shaped by several factors: the prevailing low interest rate environment, intensifying competition, the composition effect through lower margins at Splitska and Vojvodjanska banka, as well as the y-o-y 8% devaluation of RUB against HUF. Still, the margin erosion of the 2018 annual NIM (4.30%) was only 7 pps compared to the 4Q 2017 level, i.e. lower what the management guided (“10-15 bps margin erosion compared to 4Q 2017 NIM of 4.38%”).

Consolidated operating expenses grew by 12% nominally y-o-y, adjusted for the acquisition impact of Splitska and Vojvodjanska banka the increase would be 8.2% y-o-y on an FX-adjusted basis. Despite all cost elements increased, personnel expenses grew the most (+17% y-o-y, without acquisitions +12%) reflecting the 10% or above wage inflation in most of the countries. Furthermore, in December 2018 a non-recurring one-off bonus amounting to one month base salary was paid to non-managerial employees at Hungarian Group members. This was partially offset by the 2.5 pps reduction of social and health care contributions to be paid by employers effective from January 2018. Amortization costs increased at a lower rate by 4% y-o-y. Administrative expenses grew by 10% y-o-y (without acquisitions +3%) induced partially by higher general banking expenses (rental fees, post and telecom expenses), higher regulatory contributions and also by growing digital transformation expenses. The annual FX-adjusted growth of operating expenses adjusted for acquisition and the one-off Hungarian bonus payment would be 6.8%.

In 2018 the consolidated FX-adjusted performing loan volumes surged by 15%, more than HUF 1,000 billion y-o-y. It was positive that all Group members and all credit segments posted volume increase. Out of the individual performances OTP Core (+18%), Serbia (+31%), Ukraine (+30%), Russia (+30%) and Bulgaria (+11%) demonstrated excellent y-o-y growth dynamics, but smaller operations like the Montenegrin or Romanian ones, as well as Merkantil Bank also excelled themselves.

As for the major credit segments the biggest volume increase was posted in the large corporate segment (+20% y-o-y) followed by the SME and consumer loan segment (+18% and +14%, respectively), but the performing mortgage volumes growth of 6% y-o-y was remarkable, too.

The FX-adjusted deposit portfolio increase was less robust in 2018 (+8% y-o-y). As a result, the net loan/(deposit + retail bonds) ratio increased by 3 pps y-o-y to 72%.

At the end of 2018 the Group’ gross liquidity reserves comprised EUR 7.8 billion equivalent.

In line with the supportive macroeconomic environment, as well as the improving efficiency of collection, the trend of the DPD90+ volume increase (adjusted for FX and the effect of sales and write-offs) remained favourable: accordingly, in 2018 DPD90+ volumes grew only by HUF 24 billion versus an increase of HUF 51 billion in the base period. The DPD90+ ratio dropped to 6.3% (-2.9 pps y-o-y), resembling already pre-crisis levels. The DPD90+ volume decline was supported by sales and write-offs reaching HUF 176 billion in 2018. In Hungary the DPD90+ ratio dropped to 4.5% (-1.9 pps y-o-y). The consolidated risk cost rate was 0.23% versus 0.43% in the base period.

According to IFRS 9 the volume of Stage 3 exposure at the end of 2018 comprised 8.6% of gross loans. Stage 2 exposures represented 6.8% of gross loans.

[10] In early December 2018 Splitska banka d.d. merged into OTP banka Hrvatska dd., thus separate financial statements for Splitska banka d.d. are not available for December. Therefore, profit dynamics without acquisitions are based on estimated numbers.

Consolidated capital adequacy ratio (in accordance with BASEL III)

By the end of December 2018 the consolidated Common Equity Tier1 ratio under IFRS was 16.5% including the unaudited interim profit and deducting the indicated annual dividend amount.

Credit rating, shareholder structure

The Hungarian sovereign rating remained unchanged in 2018, as a result there was practically no change in the existing credit ratings of OTP Bank and OTP Mortgage Bank. Accordingly, OTP Bank's long term foreign-currency deposit rating is 'Baa3' by Moody's with stable outlook. OTP Mortgage Bank's HUF issuer rating by Moody's was 'Baa3' with stable outlook and their covered bond carried a rating of 'Baa1'. Since Moody's introduced a new rating category, according to its announcement of 18 June 2018, both OTP Bank Plc. and OTP Mortgage Bank Ltd. were assigned a 'Baa1' long-term counterparty risk rating. According to S&P Global OTP Bank an OTP Mortgage Bank had a rating of 'BBB-' the outlook was stable. S&P Global's resolution counterparty rating (RCR) for both entities are 'BBB'. From Dagong Global OTP Bank has a 'BBB+' rating, the outlook is stable. OTP Bank Russia has a 'BB' rating by Fitch, the outlook is stable.

Regarding the ownership structure of the Bank, by 31 December 2018 the following investors had more than 5% influence (voting rights) in the Company: MOL (the Hungarian Oil and Gas Company, 8.64%), the Kafijat Ltd. (7.49%), OPUS Securities SA (5.22%) and Groupama Group (5.16%).

POST BALANCE SHEET EVENTS

Hungary

- The National Bank of Hungary announced on 11 January 2019 that it has revised the Mortgage Funding Adequacy Ratio (MFAR) regulation. According to the amendments – among others –, the required MFAR level will be raised from 20% to 25% effective from 1 October 2019; additionally, the required minimum maturity of accepted funds will be increased to 3 years, and the quality requirements of eligible mortgage bonds will be strengthened.
- Mr. Mihály Varga, Minister of Finance, said on a press conference on 11 January 2019 that in order to boost the economic activity, the government is open to make a proposal to abolish the financial transaction tax in the case of retail money transfers.
- Mr. Márton Nagy, Deputy Governor of the National Bank of Hungary stressed on a conference in Vienna on 16 January 2019 that if the yearly core inflation excluding indirect tax effects was to reach or exceed the 3% threshold, that would be taken by the central bank as an adequate evidence that the start of the monetary policy tightening is justified.
- On 5 February 2019 OTP Bank signed an acquisition agreement on purchasing 87.85% shareholding of Mobiasbanca – Groupe Societe Generale S.A., the Moldovan subsidiary of Societe Generale Group. The financial closure of the transaction is expected in the coming months subject to obtaining all the necessary regulatory approvals.
- In his state-of-the-nation speech held on 10 February 2019, Prime Minister Viktor Orbán announced a demography programme to support families and improve birth rates in Hungary. The seven-point programme will start on 1 July 2019; its detailed rules are yet to be seen. The most important actions of the family protection plan are as follows, based on the Prime Minister's announcement:
    - An allowance is being designed to encourage young married couples to have children. Every woman under the age of forty who marries for the first time will be eligible for a zero interest rate loan of HUF 10 million to start their new lives. After the birth of a child the repayment of the loan will be suspended for three years. After the arrival of the second child, the loan will be suspended for another three years, and one-third of the principal debt will be written off. When the third child is born, the remaining part of the loan will be completely cancelled.
    - The subsidized loan provided under the CSOK (Housing Subsidy for Families) scheme will be extended. Currently, families with two or three children are entitled for subsidized housing loans amounting to HUF 10 million and 15 million, respectively, for purchasing new homes. In the future families with two or more children will also be allowed to use the subsidized loan for the purchase of existing properties.
    - So far, the government has assumed HUF 1 million from the mortgage loans of large families upon the birth of the third and every further child thereafter. This option will be extended: the government will assume HUF 1 million upon the birth of the second child already; it will assume HUF 4 million when the third child is born, and additional HUF 1 million will be assumed upon the birth of each further child.
    - Women who have given birth to and raised at least four children will be exempt from the payment of personal income tax for the rest of their lives.
    - A car purchase programme was announced for large families (who raise at least three children), in form of a non-repayable grant of HUF 2.5 million for the purchase of new cars with at least seven seats.
- The Hungarian Statistical Office announced on 14 February 2019 that Hungary's GDP grew by 5.0% y-o-y in Q4 2018. The seasonally and calendar-adjusted figure was 4.8%. The related statement of Mihály Varga, Minister of Finance, noted: in order to preserve Hungary's robust growth rates and to ensure that it exceeds the EU average by at least 2% in a persistent manner, the government supports the improvement of Hungary's competitiveness and it will design an economic policy action plan.
- On 15 February 2019 S&P Global Ratings upgraded the credit rating of Hungary by one notch, from 'BBB-' to 'BBB'. The outlook is stable.

- On 19 February 2019 S&P Global Ratings raised its long and short-term resolution counterparty ratings (RCR) on OTP Bank Plc. and OTP Mortgage Bank Ltd. to 'BBB/A-2' from 'BBB-/A-3'; while the 'BBB-/A-3' long- and short-term issuer credit ratings (ICRs) on both banks were affirmed. The outlooks remained stable at both banks.
- On 22 February 2019 Fitch Ratings upgraded the credit rating of Hungary by one notch, from ‘BBB-‘ to ‘BBB’. The outlook is stable.
- On 27 February 2019 the Government and the National Bank of Hungary announced a comprehensive set of economic policy measures aiming at improving the competitiveness and the long-term growth potential of the Hungarian economy, while maintaining the sustainable fiscal policy and debt trajectory.
- On 28 February 2019 OTP Bank announced that Crnogorska komercijalna banka a.d., the Montenegrin subsidiary of OTP Bank signed an acquisition agreement on purchasing 90.56% shareholding of Societe Generale banka Montenegro a.d., the Montenegrin subsidiary of Societe Generale Group.

Bulgaria

- On 7 January 2019 OTP Bank announced that the Bulgarian Court of Registration registered a capital increase at DSK Bak EAD, the Bulgarian subsidiary of OTP Bank. Accordingly, the registered capital of DSK Bank was increased to BGN 1,327,482,000 from BGN 153,984,000.
- The financial closure of the transaction based on the acquisition agreement on purchasing 99.74% shareholding of Societe Generale Expressbank (SGEB), the Bulgarian subsidiary of Societe Generale Group and other local subsidiaries held by SGEB, between Societe Generale Group and DSK Bank, the Bulgarian subsidiary of OTP Bank, has been completed on 15 January 2019.

Russia

- On 8 February 2019 Moody’s rating agency raised the Russian sovereign rating back into investment grade, to ’Baa3’. The outlook is stable.

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

	2017 HUF million	2018 HUF million	Change %
Consolidated after tax profit	**281,339**	**318,322**	**13**
Adjustments (total)	**(2,733)**	**(7,168)**	**162**
Consolidated adjusted after tax profit without the effect of adjustments	**284,072**	**325,335**	**15**
Banks total[1]	265,422	308,831	16
OTP Core (Hungary)[2]	168,576	180,445	7
Corporate Centre[3]	194	6,190	
DSK Bank (Bulgaria)[4]	47,122	47,293	0
OTP Bank Russia[5]	27,771	16,420	(41)
Touch Bank (Russia)[6]	(7,391)		
OBH (Croatia)[7]	17,105	24,961	46
OTP Bank Ukraine[8]	14,120	24,415	73
OTP Bank Romania[9]	3,036	3,850	27
OTP banka Srbija (Serbia)[10]	(2,904)	2,999	(203)
CKB (Montenegro)[11]	(155)	2,214	
OBS (Slovakia)[12]	(2,051)	44	(102)
Leasing	9,836	9,827	0
Merkantil Bank + Car, adj. (Hungary)[13]	8,260	7,437	(10)
Foreign leasing companies (Croatia, Bulgaria, Romania, Serbia)[14]	1,575	2,391	52
Asset Management	8,677	4,159	(52)
OTP Asset Management (Hungary)	8,259	4,122	(50)
Foreign Asset Management Companies (Ukraine, Romania, Bulgaria)[15]	418	37	(91)
Other Hungarian Subsidiaries	(747)	1,601	(314)
Other Foreign Subsidiaries[16]	295	388	31
Eliminations	590	528	(10)
Total adjusted after tax profit of HUNGARIAN subsidiaries[17]	185,132	200,323	8
Total adjusted after tax profit of FOREIGN subsidiaries[18]	98,940	125,012	26
Share of foreign profit contribution	35%	38%	10

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Main components of the Statement of recognized income	2017 HUF million	2018 HUF million	Change %
Consolidated after tax profit	**281,339**	**318,322**	**13**
Adjustments (total)	**(2,733)**	**(7,013)**	**157**
Dividends and net cash transfers (after tax)	680	457	(33)
Goodwill/investment impairment charges (after tax)	(6,064)	(4,729)	(22)
Special tax on financial institutions (after corporate income tax)	(15,233)	(15,286)	0
Impact of fines imposed by the Hungarian Competition Authority (after tax)	177	565	220
Effect of acquisitions (after tax)	17,708	(6,844)	(139)
Initial NPV gain on the monetary policy interest rate swap (MIRS) deals (after tax)		18,823	
Consolidated adjusted after tax profit without the effect of adjustments	**284,072**	**325,335**	**15**
Before tax profit	**321,421**	**362,734**	**13**
Operating profit	**363,159**	**384,908**	**6**
Total income	**804,946**	**881,726**	**10**
Net interest income	**546,654**	**599,832**	**10**
Net fees and commissions	**209,428**	**220,731**	**5**
Other net non-interest income	**48,864**	**61,163**	**25**
Foreign exchange result, net	21,622	33,568	55
Gain/loss on securities, net	7,068	2,461	(65)
Net other non-interest result	20,175	25,134	25
Operating expenses	**(441,788)**	**(496,818)**	**12**
Personnel expenses	(213,599)	(249,447)	17
Depreciation	(46,482)	(48,210)	4
Other expenses	(181,707)	(199,161)	10
Total risk costs	**(45,682)**	**(26,167)**	**(43)**
Provision for impairment on loan and placement losses	(31,058)	(19,283)	(38)
Other provision	(14,624)	(6,885)	(53)
Total one-off items	**3,945**	**3,993**	**1**
Gain on the repurchase of own Upper and Lower Tier 2 Capital	0	0	
Result of the treasury share swap agreement at OTP Core	3,945	3,993	1
Corporate taxes	**(37,349)**	**(37,400)**	**0**
INDICATORS	2017	2018	%/pps
ROE (from accounting net earnings)	18.5%	18.7%	0.2
ROE (from adjusted net earnings)	18.7%	19.1%	0.4
ROA (from adjusted net earnings)	2.4%	2.3%	0.0
Operating profit margin	3.03%	2.76%	(0.26)
Total income margin	6.71%	6.33%	(0.38)
Net interest margin	4.56%	4.30%	(0.25)
Net fee and commission margin	1.75%	1.58%	(0.16)
Net other non-interest income margin	0.41%	0.44%	0.03
Cost-to-asset ratio	3.68%	3.57%	(0.12)
Cost/income ratio	54.9%	56.3%	1.5
Provision for impairment on loan and placement losses-to-average gross loans	0.43%	0.23%	(0.20)
Total risk cost-to-asset ratio	0.38%	0.19%	(0.19)
Effective tax rate	11.6%	10.3%	(1.3)
Non-interest income/total income	32%	32%	0
EPS base (HUF) (from unadjusted net earnings)	1,074	1,215	13
EPS diluted (HUF) (from unadjusted net earnings)	1,074	1,215	13
EPS base (HUF) (from adjusted net earnings)	1,085	1,243	14
EPS diluted (HUF) (from adjusted net earnings)	1,085	1,242	14
Comprehensive Income Statement	2017	2018	%
Consolidated after tax profit	281,339	318,322	13
Fair value changes of financial instruments measured at fair value through other comprehensive income	15,677	(20,323)	(230)
Fair value adjustment of derivative financial instruments designated as cash-flow hedge	0	(9)	
Net investment hedge in foreign operations	155	(3,253)	
Foreign currency translation difference	(20,535)	10,007	(149)
Change of actuarial costs (IAS 19)	(241)	(65)	(73)
Net comprehensive income	**276,395**	**304,679**	**10**
o/w Net comprehensive income attributable to equity holders	276,222	304,813	10
Net comprehensive income attributable to non-controlling interest	173	(134)	(177)
Average exchange rate[1] of the HUF	2017 HUF	2018 HUF	Change %
HUF/EUR	309	319	3
HUF/CHF	279	276	(1)
HUF/USD	274	270	(1)

[1] Exchange rates presented in the tables of this report should be interpreted as follows: the value of a unit of the other currency expressed in Hungarian forint terms, i.e. HUF/EUR represents the HUF equivalent of one EUR.

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 163 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).

Total liquidity reserves of OTP Bank remained steadily and substantially above the safety level. As of 31 December 2018 the gross liquidity buffer was around EUR 7.75 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 709 million on 31 December 2018).

The volume of issued securities increased by 67% y-o-y, mainly because in order to comply with the liquidity ratio introduced by the National Bank of Hungary OTP Group sold about HUF 220 billion mortgage bonds (issued by OTP Mortgage Bank) to external counterparties in 2018, while the amount of repurchased mortgage bonds amounted to HUF 52 billion.

On the yearly basis the Hungarian retail bond portfolio shrank by HUF 2 billion to HUF 5 billion (-27%).

The volume of subordinated debt increased by 7% y-o-y. On one hand, the HUF value of the EUR denominated perpetual bond increased due to the HUF weakening against the EUR, on the other, the Ukrainian subsidiary received an USD 17 million subordinated funding in the second quarter, which matures in 2025.

…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.

In 2018 OTP Group concluded monetary policy interest rate swap deals with NBH in the amount of HUF 299 billion.

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 38.3 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. The strategic open position has been kept since 2007, and its size has been constant at EUR 310 million since 2008. The revaluation result of the strategic open position is accounted for directly against the equity.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF OTP GROUP

Main components of balance sheet	2017 HUF million	2018 HUF million	Change %
TOTAL ASSETS	**13,190,228**	**14,590,288**	**11**
Cash, amounts due from Banks and balances with the National Banks	1,198,046	1,547,272	29
Placements with other banks, net of allowance for placement losses	462,180	420,606	(9)
Financial assets at fair value through profit or loss	344,417	181,355	(47)
Securities at fair value through other comprehensive income	2,174,718	1,883,849	(13)
Net customer loans	6,987,834	8,066,592	15
Net customer loans (FX adjusted[1])	**7,116,207**	**8,066,592**	**13**
Gross customer loans	7,690,419	8,719,342	13
Gross customer loans (FX adjusted[1])	**7,835,162**	**8,719,342**	**11**
o/w Retail loans	4,924,781	5,297,735	8
Retail mortgage loans (incl. home equity)	2,496,493	2,568,636	3
Retail consumer loans	1,870,080	2,093,404	12
SME loans	558,209	635,695	14
Corporate loans	2,641,636	3,110,652	18
Loans to medium and large corporates	2,435,223	2,812,763	16
Municipal loans	206,414	297,889	44
Car financing loans	268,586	310,955	16
Bills and accrued interest receivables related to loans	158	0	(100)
Allowances for loan losses	(702,585)	(652,751)	(7)
Associates and other investments	12,269	17,592	43
Securities at amortized costs	1,310,331	1,740,520	33
Tangible and intangible assets, net	413,389	420,484	2
o/w Goodwill, net	100,976	91,766	(9)
Tangible and other intangible assets, net	312,414	328,718	5
Other assets	287,044	312,018	9
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**13,190,228**	**14,590,288**	**11**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	472,068	392,706	(17)
Deposits from customers	10,233,471	11,285,085	10
Deposits from customers (FX adjusted[1])	**10,436,537**	**11,285,085**	**8**
o/w Retail deposits	7,414,825	8,244,455	11
Household deposits	6,204,452	6,806,288	10
SME deposits	1,210,372	1,438,168	19
Corporate deposits	3,007,037	3,029,285	1
Deposits to medium and large corporates	2,314,641	2,320,971	0
Municipal deposits	692,397	708,314	2
Accrued interest payable related to customer deposits	14,675	11,344	(23)
Liabilities from issued securities	250,320	417,966	67
o/w Retail bonds	6,500	4,732	(27)
Liabilities from issued securities without retail bonds	243,821	413,235	69
Other liabilities	518,286	586,445	13
Subordinated bonds and loans[2]	76,028	81,429	7
Total shareholders' equity	**1,640,055**	**1,826,657**	**11**
Indicators	2017	2018	%/pps
Loan/deposit ratio (FX adjusted[1])	75%	77%	2
Net loan/(deposit + retail bond) ratio (FX adjusted[1])	68%	72%	3
Stage 3 loan volume under IFRS 9		753,033	
Stage 3 loans under IFRS9/gross customer loans		8.6%	
Stage 2 loan volume under IFRS 9		591,870	
Stage 2 loans under IFRS9/gross customer loans		6.8%	
90+ days past due loan volume	707,211	551,498	(22)
90+ days past due loans/gross customer loans	9.2%	6.3%	(2.9)
Total provisions/90+ days past due loans	99.3%	118.4%	19.0
Consolidated capital adequacy - Basel3	2017	2018	%/pps
Capital adequacy ratio (consolidated, IFRS)	14.6%	18.3%	3.6
Tier1 ratio	12.7%	16.5%	3.8
Common Equity Tier1 ('CET1') capital ratio	12.7%	16.5%	3.8
Regulatory capital (consolidated)	1,228,628	1,731,970	41
o/w Tier1 Capital	1,062,701	1,565,247	47
o/w Common Equity Tier1 capital	1,062,701	1,565,247	47
Tier2 Capital	165,927	166,723	0
o/w Hybrid Tier2	89,935	89,935	0
Consolidated risk weighted assets (RWA) (Credit&Market&Operational risk)	8,389,920	9,488,916	13
o/w RWA (Credit risk)	6,795,559	7,966,050	17
RWA (Market & Operational risk)	1,594,361	1,522,866	(4)
Closing exchange rate of the HUF	2017 HUF	2018 HUF	Change %
HUF/EUR	310	322	4
HUF/CHF	265	285	8
HUF/USD	259	281	9

[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 recognised income	2017 HUF million	2018 HUF million	Change %
After tax profit without the effect of adjustments	168,576	180,445	7
Corporate income tax	(16,986)	(14,717)	(13)
Pre-tax profit	185,562	195,162	5
Operating profit	150,833	144,577	(4)
Total income	365,591	378,534	4
Net interest income	234,304	245,934	5
Net fees and commissions	109,128	107,010	(2)
Other net non-interest income	22,159	25,590	15
Operating expenses	(214,758)	(233,956)	9
Total risk costs	30,784	46,591	51
Provision for impairment on loan and placement losses	33,586	48,192	43
Other provisions	(2,803)	(1,601)	(43)
Total one-off items	3,945	3,993	1
Gain on the repurchase of own Upper and Lower Tier2 Capital	0	0	
Revaluation result of the treasury share swap agreement	3,945	3,993	1
Indicators	**2017**	**2018**	**pps**
ROE	12.3%	12.2%	(0.1)
ROA	2.3%	2.2%	(0.1)
Operating profit margin	2.1%	1.8%	(0.3)
Total income margin	5.02%	4.64%	(0.38)
Net interest margin	3.22%	3.01%	(0.20)
Net fee and commission margin	1.50%	1.31%	(0.19)
Net other non-interest income margin	0.30%	0.31%	0.01
Operating costs to total assets ratio	2.9%	2.9%	(0.1)
Cost/income ratio	58.7%	61.8%	3.1
Provision for impairment on loan and placement losses/average gross loans[1]	(1.23%)	(1.60%)	(0.37)
Effective tax rate	9.2%	7.5%	(1.6)

[1] Negative *Provision for impairment on loan and placement losses/average gross loans* ratio implies positive amount on the *Provision for impairment on loan and placement losses* line.

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

Main components of balance sheet closing balances	2017 HUF million	2018 HUF million	Change %
Total Assets	7,704,135	8,563,425	11
Net customer loans	2,634,920	3,096,391	18
Net customer loans (FX-adjusted)	**2,651,784**	**3,096,391**	**17**
Gross customer loans	2,793,871	3,241,345	16
Gross customer loans (FX-adjusted)	**2,812,752**	**3,241,345**	**15**
Retail loans	1,823,513	1,970,879	8
Retail mortgage loans (incl. home equity)	1,275,721	1,329,562	4
Retail consumer loans	372,012	425,786	14
SME loans	175,779	215,531	23
Corporate loans	989,239	1,270,466	28
Loans to medium and large corporates	953,436	1,185,030	24
Municipal loans	35,803	85,436	139
Provisions	(158,951)	(144,954)	(9)
Provisions (FX-adjusted)	**(160,969)**	**(144,954)**	**(10)**
Deposits from customers + retail bonds	5,388,080	5,967,857	11
Deposits from customers + retail bonds (FX-adjusted)	**5,431,237**	**5,967,857**	**10**
Retail deposits + retail bonds	3,504,431	4,050,098	16
Household deposits + retail bonds	2,845,112	3,259,145	15
o/w: Retail bonds	6,500	4,732	(27)
SME deposits	659,319	790,953	20
Corporate deposits	1,926,806	1,917,759	0
Deposits to medium and large corporates	1,307,433	1,311,242	0
Municipal deposits	619,373	606,517	(2)
Liabilities to credit institutions	285,539	236,700	(17)
Issued securities without retail bonds	288,799	461,138	60
Total shareholders' equity	1,430,256	1,561,688	9
Loan Quality	2017	2018	%/pps
Stage 3 loan volume under IFRS 9 (in HUF million)		190,682	
Stage 3 loans under IFRS 9/gross customer loans		5.9%	
90+ days past due loan volume (in HUF million)	179,618	147,218	(18)
90+ days past due loans/gross customer loans	6.4%	4.5%	(1.9)
Total provisions/90+ days past due loans	88.5%	98.5%	10.0
Market Share	2017	2018	pps
Loans	20.6%	20.8%	0.3
Deposits	26.1%	25.7%	(0.4)
Total Assets	25.7%	26.2%	0.5
Performance Indicators	2017	2018	pps
Net loans to (deposits + retail bonds) (FX-adjusted)	49%	52%	3
Leverage (closing Shareholder's Equity/Total Assets)	18.6%	18.2%	(0.3)
Leverage (closing Total Assets/Shareholder's Equity)	5.4x	5.5x	0.1x
Capital adequacy ratio (OTP Bank, non-consolidated, Basel3, IFRS)	31.4%	28.2%	(3.2)
Common Equity Tier1 ratio (OTP Bank, non-consolidated, Basel3, IFRS)	29.0%	26.2%	(2.8)

- ***The adjusted profit after tax of OTP Core reached HUF 180.4 billion in 2018, marking a 7% increase on the back of higher positive risk costs***
- ***The annual net interest margin attrition reached 20 bps (3.01%)***
- ***Favourable credit quality trends remained intact, the DPD90+ ratio sank to 4.5%***
- ***Performing loan volume growth accelerated to 18% in 2018. The corporate segment remained the engine of growth, but household volumes also gained momentum: consumer loans expanded by 19%, mortgages by 6%. Within mortgages, housing loan expansion exceeded 10%***
- ***Full-year mortgage loan disbursements soared by 40% y-o-y. Within new loan applications the share of fixed rate and within that, the proportion of loans with longer interest rate fixation periods have been rising further***

P&L developments

Without the effect of adjustment items **OTP Core** posted an after tax profit of HUF 180.4 billion in 2018, marking an improvement of 7% y-o-y, driven by 51% higher positive risk costs beside 4% decline in operating profit.

The annual total income (without one-off revenue items) went up by 4% y-o-y, predominantly driven by the 5% improvement in net interest income. Gross interest revenues benefited from dynamic organic loan volume growth, and the placement of additional liquidity generated by the deposit inflow. The annual net interest margin (3.01%) declined by 20 bps compared to the previous year.

The annual net fee and commission income decreased by 2% y-o-y. On one hand, growing volumes and transactional turnover resulted in stronger card, deposit and transaction-related fee revenues. However, securities fee income declined because the distribution fees on certain household targeted government bonds were reduced by the Government Debt Management Agency in many steps.

The annual other net non-interest income (without one-offs) grew by 15% y-o-y. This was partially owing to the better FX-result realized in 2Q 2018, whereas the gain on securities moderated.

The *revaluation result of the treasury share swap agreement* (showed among the one-off revenue items) remained stable y-o-y.

Annual operating expenses increased by 9% y-o-y. Within that, the dynamics of personnel expenses was driven by base salary hikes in 2017 and further hikes effective from April 2018 in the network and July 2018 in the headquarters, but the higher number of employees played a role, too. Furthermore, in December 2018 a non-recurring one-off bonus amounting to one month base salary was paid to non-managerial employees at Hungarian Group members, adding HUF 5.4 billion to personnel expenses at OTP Core. These were partially offset by the 2.5 pps reduction of social and health care contributions to be paid by employers effective from January 2018. (In 2017 the Government cut these contributions by 5 pps).

On the total risk costs line a positive amount of HUF 46.6 billion was recognized in 2018, 51% more than a year ago.

Benign risk cost developments were aided by favourable credit quality trends amid supportive economic environment: the DPD90+ loan volumes adjusted for FX rate movements and without problem loan sales and write offs declined by HUF 8.5 billion in the course of 2018 (within that HUF 2 billion in 1Q, HUF 3 billion in 2Q, HUF 2 billion in 3Q and HUF 1.5 billion in 4Q 2018), against a decline of HUF 5 billion in 2016 as a whole adjusted for the technical effect of the AXA portfolio take-over, and HUF 14 billion in 2017, respectively. In 2018 HUF 24 billion non-performing exposures were sold or written off. The trend-like improvement of DPD90+ ratio continued: it moderated by 1.9 pps y-o-y to 4.5%. The ratio of Stage 3 loans under IFRS 9 to total gross loans stood at 5.9% by the end of 2018.

Balance sheet trends

The FX-adjusted gross loan portfolio increased by 15% 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 18% y-o-y, against 11% growth reported in 2017 (FX-adjusted).

Organic loan expansion was predominantly driven by outstanding corporate loan growth in 2018, too, similar to the previous two years. It is favourable that household loan growth and within that, mortgage and consumer loan expansion has been following an accelerating growth pattern, too.

As for mortgages, their performing stock volume growth amounted to 6% y-o-y. The stock of performing mortgage loans consists of three major sub-categories: housing loans (making up 77% of the total performing stock), home equities (or mortgage-backed consumer loans, 21%), and flat lease (1%). These three product segments have different growth patterns. Performing housing loan volumes are the main contributors to growth: their yearly expansion pierced 10% (+11% y-o-y). On the contrary, home equity loans have been steadily dwindling (-9% y-o-y) as their amortization exceeds new disbursements in the wake of waning popularity compared to the pre-crisis period. Flat lease volumes making up a small part of total mortgages grew by 2% y-o-y.

Annual mortgage loan applications at OTP Core amounted to HUF 355 billion (+21% y-o-y). Cumulated new disbursements showed a 40% increase y-o-y.

OTP Bank's market share in new mortgage loan contractual amounts reached 29.2% in 2018 as a whole, up from 27.7% a year ago.

With respect to mortgage lending, one of the most important and spectacular developments was the steady and unambiguous rise in the popularity of fixed rate mortgages. At OTP the proportion of fixed rate housing loans (with an interest rate fixation period of at least 5 years) within non-subsidized housing loan applications reached 97% in 4Q 2018, up from around 50% in 2017 as a whole. It was also positive that in the last several months the applications for mortgages with a repricing period of 10 years or more gained further ground: in 4Q 2018 the aggregated volume of applications for loans with fixation period of 10 and 20 years was close to 80% within total fixed rate credits.

The above developments were stimulated by the deliberate policies taken by the National Bank of Hungary, through the introduction of the certified consumer-friendly housing loans and the amendments to the PTI rules effective from 1 October 2018. In 4Q 2018 the share of certified customer-friendly mortgages within new fixed rate market-based housing loan applications exceeded 70%.

OTP Bank helps Hungarian families realize their housing aims through its active participation in the Housing Subsidy Scheme for Families (CSOK), too. In 2018 altogether more than 12 thousand applications for the CSOK subsidy were registered at OTP Bank with a value of over HUF 40 billion.

Performing consumer loan dynamics demonstrated an accelerating trend: they went up by 19% in 2018, versus +14%[12] a year ago (FX-adjusted). Within consumer loans, cash loan growth was outstanding the yearly increase reached 38%. OTP's market share in the cash loan volumes stood at 33.4% at the end of the period under review.

FX-adjusted deposit volumes (including retail bonds) increased by 10% y-o-y. The yearly expansion was driven by household and SME deposits (+15% and +20%, respectively), whereas corporate volumes remained stable.

The net loan to (deposit+retail bonds) ratio improved by 3 pps y-o-y, edging up to 52%, thus the balance sheet structure of the Hungarian base operation became more efficient, though the absolute level of the ratio can still be regarded as quite low.

As for the distribution of the liquidity reserves of the Bank, in the last several years there has been a gradual shift towards longer duration Hungarian government securities, and this trend continued into 2018, too.

The yearly increase in the volume of issued securities without retail bonds (+HUF 172 billion) was reasoned on one hand by covered bond issuances by OTP Mortgage Bank: in 2Q HUF denominated covered bonds were sold with 5 year maturity and fixed 1.75% coupon, in 3Q floating rate (1M BUBOR + 60 bps) HUF covered bonds were issued with 2024 maturity, and in 4Q HUF denominated covered bonds maturing in 2024 with fixed 2.5% coupon. At the same time, previously issued covered bonds were repurchased.

[12] In 2017 the yearly performing consumer loan dynamics was +25% on an FX-adjusted basis, fuelled by several large-ticket lombard loans, too – without these the y-o-y growth would have been 14%.

OTP FUND MANAGEMENT (HUNGARY)

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

Main components of P&L account	2017 HUF million	2018 HUF million	Change %
After tax profit w/o dividends and net cash transfer	8,259	4,122	(50)
Income tax	(811)	(403)	(50)
Profit before income tax	9,070	4,525	(50)
Operating profit	9,089	4,525	(50)
Total income	11,763	7,121	(39)
Net interest income	0	0	(0)
Net fees and commissions	11,765	7,196	(39)
Other net non-interest income	(2)	(75)	
Operating expenses	(2,674)	(2,596)	(3)
Other provisions	(20)	0	
Main components of balance sheet closing balances	2017	2018	%
Total assets	20,587	16,821	(18)
Total shareholders' equity	17,958	14,353	(20)
Asset under management	2017 HUF billion	2018 HUF billion	%
Assets under management, total (w/o duplicates)[1]	**1,519**	**1,035**	**(32)**
Volume of investment funds (closing, w/o duplicates)	942	749	(21)
Volume of managed assets (closing)	576	286	(50)
Volume of investment funds (closing, with duplicates)[2]	1,180	982	(17)
money market	189	129	(31)
bond	295	217	(26)
mixed	56	55	(1)
security	158	153	(3)
guaranteed	49	32	(34)
other[3]	434	395	(9)

[1] The cumulative net asset value of investment funds and managed assets of OTP Fund Management, eliminating the volume of own investment funds (duplications) being managed in other investment funds and managed assets of OTP Fund Management.
[2] The cumulative net asset value of investment funds with duplications managed by OTP Fund Management.
[3] Other funds: absolute return, derivative and commodity market funds.

OTP Fund Management achieved HUF 4.1 billion profit in 2018 (-50% y-o-y). The erosion was a result of the outstandingly strong performance in the base period, as a consequence of diminishing net fees and commissions by 39% y-o-y, whereas operating expenses moderated by 3% y-o-y.

The yearly performance of net fees and commissions was shaped by the following factors: the fund management fee income matched the base period as the negative impact of lower volume of managed assets was offset by shifting towards higher fee-generating funds. At the same time, compared to 2017 the overall market was more volatile taking its toll through lower success fees (-HUF 4 billion y-o-y).

Considering the whole market, in 2018 the assets under management of BAMOSZ members (without property funds) eroded by 11% y-o-y and by the end of December dropped to HUF 4,403 billion. Bond portfolios suffered an overall outflow, whereas the money market, equity and guaranteed funds on the top of that experienced negative yields, too.

Volume of investment funds (closing, with duplicates) at the Company decreased by 17% y-o-y. The shift within different types of investment funds reflected the overall market developments. The most significant net outflow hit the bond and money market funds.

The market share of OTP Fund Management (without duplications) was 22.3% at the end of 2018, down by 1.4 pps y-o-y. The Company retained its market leading position.

MERKANTIL BANK AND CAR (HUNGARY)

Performance of Merkantil Bank and Car:

Main components of P&L account	2017 in HUF million	2018 in HUF million	Change %
After tax profit without the effect of adjustments	8,260	7,437	(10)
Income tax	(357)	456	
Profit before income tax	8,618	6,981	(19)
Operating profit	6,229	6,599	6
Total income	12,423	12,983	5
Net interest income	12,477	13,131	5
Net fees and commissions	(366)	(124)	(66)
Other net non-interest income	311	(24)	
Operating expenses	(6,194)	(6,384)	3
Total provisions	2,389	382	(84)
Provision for impairment on loan and placement losses	2,049	256	(87)
Other provision	340	126	(63)
Main components of balance sheet closing balances	**2017**	**2018**	**%**
Total assets	369,180	404,750	10
Gross customer loans	292,925	321,353	10
Gross customer loans (FX-adjusted)	293,925	321,353	9
Retail loans	28,985	29,558	2
Corporate loans	90,141	103,541	15
Car financing loans	174,798	188,254	8
Allowances for possible loan losses	(21,000)	(13,853)	(34)
Allowances for possible loan losses (FX-adjusted)	(21,048)	(13,853)	(34)
Deposits from customers	20,799	15,180	(27)
Deposits from customer (FX-adjusted)	20,799	15,180	(27)
Retail deposits	19,250	13,307	(31)
Corporate deposits	1,549	1,873	21
Liabilities to credit institutions	303,371	337,136	11
Issued securities	0	0	(100)
Total shareholders' equity	30,268	37,189	23
Loan Quality	**2017**	**2018**	**%/pps**
Stage 3 loan volume under IFRS 9 (in HUF million)		14,133	
Stage 3 loans under IFRS 9/gross customer loans		4.4%	
Provision for impairment on loan and placement losses/average gross loans	(0.71%)	(0.08%)	0.63
90+ days past due loan volume (in HUF million)	16,874	10,204	(39.5)
90+ days past due loans/gross customer loans	5.8%	3.2%	(2.6)
Total provisions/90+ days past due loans	124.5%	135.8%	(11.3)
Performance Indicators	**2017**	**2018**	**pps**
ROA	2.3%	1.9%	(0.4)
ROE	29.4%	24.4%	(4.9)
Total income margin	3.49%	3.38%	(0.11)
Net interest margin	3.50%	3.42%	(0.08)
Cost/income ratio	49.9%	49.2%	(0.7)

On 30 September 2018 Merkantil Car Ltd. merged into Merkantil Bank Ltd. and ceased to exist as a separate legal entity.

Merkantil Bank and Car posted HUF 7.4 billion adjusted after tax profit in 2018 which is 10% below the base period. The y-o-y lower profit was mainly attributable to credit risk cost development: against HUF 2.4 billion positive total risk cost in the base period, in 2018 risk costs comprised only +HUF 0.4 billion.

In 2018 net interest income increased by 5% y-o-y, the expansion of performing loan volumes had a positive NII-effect, while the net interest margin eroded.

Net fee and commission expenses in 2018 dropped by 66% y-o-y: the distribution of certain deposit products came to an end, as a result lower distribution fees were paid compared to the base period.

Annual operating expenses grew by 3% y-o-y, within that depreciation, marketing cost and expert fees increased.

Credit quality trends remained positive. The ratio of DPD90+ loans decreased by 2.6 pps y-o-y to 3.2% parallel with HUF 6.4 billion problem loans being sold or written off in 2018. The ratio of Stage 3 loans under IFRS 9 to total gross loans stood at 4.4%.

The FX-adjusted performing loan portfolio expanded by 12% on a yearly basis as a result of favourable disbursement dynamics. The volume of performing corporate exposures and car loans expanded by 16 and 12%, respectively, on a yearly base. Total new loan origination surged by 26% y-o-y, within that the volume of newly disbursed car loans expanded by 22% y-o-y in 2018.

Merkantil retained its market leading position both in terms of new disbursements and outstanding leasing volumes.

IFRS REPORTS OF THE MAIN FOREIGN SUBSIDIARIES OF OTP BANK

DSK GROUP (BULGARIA)

Performance of DSK Group:

Main components of P&L account	2017 in HUF million	2018 in HUF million	Change %
After tax profit without the effect of adjustments	47,122	47,293	0
Income tax	(4,920)	-4,308	(12)
Profit before income tax	52,042	51,601	(1)
Operating profit	61,461	57,096	(7)
Total income	108,290	107,817	0
Net interest income	72,257	69,979	(3)
Net fees and commissions	27,714	30,435	10
Other net non-interest income	8,319	7,403	(11)
Operating expenses	(46,830)	-50,720	8
Total provisions	(9,419)	-5,495	(42)
Provision for impairment on loan and placement losses	(3,571)	-9,532	167
Other provision	(5,848)	4,038	(169)
Main components of balance sheet closing balances	**2017**	**2018**	**%**
Total assets	1,925,740	2,381,275	24
Gross customer loans	1,184,871	1,343,729	13
Gross customer loans (FX-adjusted)	1,228,363	1,343,729	9
Retail loans	857,693	932,756	9
Corporate loans	370,671	410,973	11
Allowances for possible loan losses	(109,137)	(111,369)	2
Allowances for possible loan losses (FX-adjusted)	(113,141)	(111,369)	(2)
Deposits from customers	1,626,924	1,890,897	16
Deposits from customer (FX-adjusted)	1,690,207	1,890,897	12
Retail deposits	1,508,881	1,654,613	10
Corporate deposits	181,325	236,283	30
Liabilities to credit institutions	4,802	3,144	(35)
Total shareholders' equity	250,296	453,891	81
Loan Quality	**2017**	**2018**	**%/pps**
Stage 3 loan volume under IFRS 9 (in HUF million)		141,513	
Stage 3 loans under IFRS 9/gross customer loans		10.5%	
Provision for impairment on loan and placement losses/average gross loans	0.31%	0.74%	0.44
90+ days past due loan volume (in HUF million)	93,936	89,986	(4)
90+ days past due loans/gross customer loans	7.9%	6.7%	(1.2)
Total provisions/90+ days past due loans	116.2%	123.8%	7.6
Performance Indicators	**2017**	**2018**	**pps**
ROA	2.5%	2.3%	(0.2)
ROE	20.0%	18.4%	(1.6)
Total income margin	5.77%	5.20%	(0.58)
Net interest margin	3.85%	3.37%	(0.48)
Cost/income ratio	43.2%	47.0%	3.8
Net loans to deposits (FX-adjusted)	66%	65%	(1)
FX rates	**2017 HUF**	**2018 HUF**	**Change %**
HUF/BGN (closing)	158.6	164.4	4
HUF/BGN (average)	158.1	163.0	3

- ***Stable, HUF 47.3 billion profit after tax in 2018 as a result of moderating operating profit (-7%) and lower risk costs***
- ***The FX-adjusted performing loan portfolio grew by 11% y-o-y***
- ***The annual net interest margin eroded by 48 bps to 3.37%***
- ***The ratio of DPD90+ loans sank to 6.7%. The pace of credit quality deterioration remained moderate in 2018 as a whole***
- ***The full-year risk cost fell by 42% in 2018***

Based on the acquisition agreement on purchasing 99.74% shareholding of Societe Generale Expressbank („SGEB") and other local subsidiaries held by SGEB, signed by Societe Generale Group and DSK Bank EAD on 1 August 2018, the financial closure of the transaction was completed on 15 January 2019. Upon the request of the seller, OTP Bank doesn't disclose the purchase price.

2018 financial statements include neither the balance sheet, not the profit or loss statement of SGEB.

Due to the acquisition and in order to comply with regulatory capital requirements, OTP Bank raised capital in DSK Bank in December 2018. As a result, the shareholders' equity of DSK Bank increased by EUR 600 million equivalent.

DSK Group posted an after tax profit of HUF 47.3 billion in 2018 (flat in HUF terms, -3% in local currency terms), corresponding to an ROE of 18.4%.

The annual operating profit decreased by 7% due to the 8% increase of operating expenses, whereas total income remained stable. Total income was shaped mainly by the 3% decline in net interest income and the 10% improvement in net fee and commission income, while other income diminished by 11%.

Net interest income declined on the back of the 48 bps erosion of the annual net interest margin (3.37%), reflecting mainly the ongoing repricing of assets. This was partially offset by the dynamic loan volume expansion.

The full-year net fee and commission income improved by 10%, mainly as a result of deposits and transactions related revenue growth. Other net non-interest income dropped by 11% y-o-y partly due to moderating gain on securities.

The annual operating expenses grew by 8% y-o-y (+5% in BGN terms). Within that personnel expenses went up by 14% in HUF terms and 10% in local currency terms; latter was reasoned by the 2% higher average total headcount and the 8% increase in average personnel expense per employee. At the same time, in Bulgaria the average gross nominal wage increase reached 7.4% y-o-y in the course of 2018. On a yearly basis expenses related to computer hardware and office equipment, telecommunication and marketing, as well as charges paid to supervisory authorities increased, but expert fees showed a decline.

In 2018 as a whole total risk cost amounted to -HUF 5.5 billion, implying a 42% y-o-y decline. Within that provision for impairment on loan and placement losses were two and a half times higher than a year earlier, partly as a result of that in the course of the last quarter the PD and LGD parameters, as well as the macroeconomic expectations were revised in the IFRS9 provisioning models.

In 2018 the risk cost rate hit 0.7%, up from 0.3% in the previous year. This was mainly driven by the higher provisioning levels induced by the IFRS9 methodology, and the revision of IFRS9 model parameters in 4Q 2018. Other provisions saw a release in 2018 as a whole.

In 2018 HUF 9 billion problem loans were sold or written off. FX-adjusted DPD90+ volumes without the impact of loan sales and write-offs increased by HUF 1.4 billion in 2018. The DPD90+ ratio decreased by 1.2 pps y-o-y to 6.7%. The ratio of Stage 3 loans to total gross loans stood at 10.5% at the end of 2018.

Lending activity picked up further in 2018: the dynamically growing new loan disbursements resulted in accelerating performing loan volume expansion, hitting 11% in 2018, up from 7% a year ago (FX-adjusted). As for the main segments, performing mortgage loans were up by 14% y-o-y, thanks to the 73% surge in new disbursements (in local currency terms).

As for cash loans and point-of-sale loans, the full-year new origination grew by 12% y-o-y in local currency, thus performing consumer loans expanded by 7% y-o-y. The performing corporate loan portfolio increased by 14% in the last 12 months, DSK's market share in outstanding corporate loans improved to 8.0% from 7.7% at the end of 2017.

The FX-adjusted deposit base increased by 12% y-o-y, supported by both the retail and corporate segments. The net loan-to-deposit ratio stood at 65% at the end of 2018, reflecting a 1 pp decline y-o-y on an FX-adjusted basis.

The capital adequacy ratio of DSK Bank under local regulation stood at 16.3%, against 17.2% a year ago. The capital adequacy ratio and capital requirement of DSK Bank were shaped by the following factors: on one hand, interim results less dividend cannot be included into the regulatory capital due to the lack of audit, but the steady organic growth in loan volumes resulted in y-o-y higher risk weighted assets (RWA). Secondly, the other systemically important financial institutions buffer (O-SII) introduced from 2018 will gradually creep up: from 0.25% in 2018 to 0.75% in 2019 and 1% in 2020. Thirdly, the SGEB deal was financially closed on 15 January 2019; as a prelude to that in December 2018 DSK Bank received a capital injection from OTP Bank, the registration of which, thus its inclusion into the regulatory capital has not yet happened by the end of 2018.

OTP BANK RUSSIA

Performance of OTP Bank Russia:

Main components of P&L account	2017 HUF million	2018 HUF million	Change %
After tax profit w/o dividends and net cash transfer	27,771	16,420	(41)
Income tax	(7,514)	(4,614)	(39)
Profit before income tax	35,285	21,034	(40)
Operating profit	72,015	68,878	(4)
Total income	125,290	129,899	4
Net interest income	101,326	102,489	1
Net fees and commissions	22,975	26,766	17
Other net non-interest income	989	644	(35)
Operating expenses	(53,276)	(61,021)	15
Total provisions	(36,730)	(47,844)	30
Provision for impairment on loan and placement losses	(35,880)	(42,204)	18
Other provision	(850)	(5,640)	564
Main components of balance sheet closing balances	**2017**	**2018**	**%**
Total assets	638,031	707,593	11
Gross customer loans	531,280	610,355	15
Gross customer loans (FX-adjusted)	482,392	610,355	27
Retail loans	430,413	544,519	27
Corporate loans	51,871	65,733	27
Car financing loans	108	103	(5)
Gross DPD0-90 customer loans (FX-adjusted)	405,826	528,360	30
Retail loans	358,138	463,799	30
Allowances for possible loan losses	(112,158)	(126,655)	13
Allowances for possible loan losses (FX-adjusted)	(102,215)	(126,655)	24
Deposits from customers	353,306	379,911	8
Deposits from customer (FX-adjusted)	326,031	379,911	17
Retail deposits	261,547	301,887	15
Corporate deposits	64,484	78,025	21
Liabilities to credit institutions	100,404	120,156	20
Issued securities	353	320	(9)
Subordinated debt	22,780	22,522	(1)
Total shareholders' equity	135,213	147,999	9
Loan Quality	**2017**	**2018**	**%/pps**
Stage 3 loan volume under IFRS 9 (in HUF million)		84,469	
Stage 3 loans under IFRS 9/gross customer loans		13.8%	
Provision for impairment on loan and placement losses/average gross loans	7.35%	7.39%	0.04
90+ days past due loan volume (in HUF million)	83,742	81,995	(2)
90+ days past due loans/gross customer loans	15.8%	13.4%	(2.3)
Total provisions/90+ days past due loans	133.9%	154.5%	20.5
Performance Indicators	**2017**	**2018**	**pps**
ROA	4.6%	2.4%	(2.2)
ROE	21.0%	10.9%	(10.1)
Total income margin	20.91%	19.28%	(1.63)
Net interest margin	16.91%	15.21%	(1.70)
Cost/income ratio	42.5%	47.0%	4.5
Net loans to deposits (FX-adjusted)	117%	127%	11
FX rates	**2017 HUF**	**2018 HUF**	**Change %**
HUF/RUB (closing)	4.5	4.1	(10)
HUF/RUB (average)	4.7	4.3	(8)

- ***Starting from 1Q 2018 performance of Touch Bank is presented as part of OTP Bank Russia***
- ***HUF 16.4 billion after tax profit in 2018 (-13% y-o-y in local currency terms incorporating the net results of Touch Bank in the base period, too) corresponding to an ROE of 11%***
- ***Risk cost rate for 2018 stood at 7.4%. DPD90+ ratio decreased to 13.4%***
- ***The performing loan portfolio grew by 27% y-o-y (FX-adjusted, incorporating the loan portfolio of Touch Bank in the base period)***
- ***Net loan-to-deposit ratio grew to 127%***

Until the end of 2017 Touch Bank was part of OTP Bank Russia from legal point of view, and it was operating under the same banking license, but as a separate digital banking business line. In order to provide transparent information Touch Bank was presented as a separate virtual entity. However, due to changes in the governance and operation the separation of Touch Bank is no longer justified, therefore in the Business Report the performance of Touch Bank is presented from 2018 incorporated in the OTP Bank Russia performance. Until 2017 Touch Bank's performance was presented separately, therefore the table above does not contain information about the performance of Touch Bank for the respective periods.

The HUF denominated financial figures of OTP Bank Russia are distorted by the HUF/RUB moves: the 2018 closing RUB exchange rate showed y-o-y 10% devaluation against HUF, while the average 2018 rate showed a 8% y-o-y devaluation against HUF. Therefore local currency P&L and balance sheet dynamics can be materially different from those in HUF terms.

In 2018 **OTP Bank Russia** posted after-tax profit of HUF 16.4 billion, of which HUF -4.5 billion was Touch Bank's negative contribution.

As for the y-o-y development of the Russian performance it is worth incorporating the performance of Touch Bank into OTP Bank Russia's results also in the base period, so we analyse the y-o-y changes accordingly. The 2018 after tax profit showed a 13% y-o-y drop in RUB terms, as a result of 17% higher operating profit and 37% increase in risk cost.

Total income increased by 11% in RUB terms y-o-y, partly due to net interest income advancing by 8% fuelled by the 27% y-o-y growth of FX-adjusted performing loans (incorporating the loan portfolio of Touch Bank also in the base period), while net interest margin sank by about 1.5 pps to 15.2%. Net fee and commission income surged by 26% y-o-y (in RUB terms) due to the considerable growth of insurance fee income on cash loans and other products with insurance policies, and also due to higher commissions generated on the growing average credit card portfolio.

Operating expenses increased by 6% y-o-y in RUB terms (incorporating the expenses at Touch Bank also in the base period), partly reasoned by the one-off costs related to the write-off of Touch Bank's software that couldn't be utilised, and also by higher personnel expenses related to the layoff or integration into the Russian bank of former Touch Bank employees.

For the full year 2018 risk cost rate stood at 7.4%, slightly lower than in 2017 (incorporating Touch Bank as well). The FX-adjusted DPD90+ loan volume growth adjusted for the sales and write-offs amounted to HUF 36 billion in 2018. This underpins a 5% y-o-y increase (including Touch Bank in the base period), which is markedly less than the overall growth of the loan portfolio. The DPD90+ portfolio shrunk in 2018 owing to the sale and write-off of HUF 28.2 billion loans in 2018. The DPD90+ ratio declined to 13.4%. Stage 3 loans made up 13.8% of total gross loans at end-2018.

In 2018 the loan portfolio expansion continued, the FX-adjusted performing (DPD0-90) loans grew by 27% y-o-y (including Touch Bank in the base period). Within consumer loans cash loans and POS loans demonstrated the fastest growth (+48 and +26% y-o-y, respectively), owing to the +51 and +19% yearly surge in newly originated volumes. In the credit card loan segment the y-o-y expansion of the portfolio was also double digit.

Performing corporate loans increased 35% y-o-y, mainly due to the favourable development of large corporate loan and commercial factoring exposures.

In 2018 total deposits grew by 9% y-o-y (FX-adjusted), while the net loan-to-deposit ratio increased by 14 pps to 127% (incorporating Touch Bank in the base period). Liabilities to credit institutions grew by 57% y-o-y in RUB terms, mainly due to the higher volume of intragroup liabilities.

Touch Bank's contribution to the overall performance of OTP Bank Russia in 2018: profit after tax was -HUF 4.5 billion, operating expenses amounted to -HUF 6.8 billion, whereas total risk cost stood at -HUF 1.6 billion. Starting from May 2018 Touch Bank stopped selling own products, and the consolidation of the two operations is in progress. Until end-2018 almost 22 thousand former Touch Bank customers became client of OTP Bank Russia.

OTP BANKA HRVATSKA (CROATIA)

Performance of OTP banka Hrvatska (including Splitska banka):

Main components of P&L account	2017 HUF million	2018 HUF million	Change %
After tax profit without the effect of adjustments	17,105	24,961	46
Income tax	(3,742)	(5,638)	51
Profit before income tax	20,848	30,599	47
Operating profit	28,779	35,456	23
Total income	63,643	78,295	23
Net interest income	44,313	54,059	22
Net fees and commissions	12,603	16,042	27
Other net non-interest income	6,728	8,194	22
Operating expenses	(34,864)	(42,840)	23
Total provisions	(7,931)	(4,857)	(39)
Provision for impairment on loan and placement losses	(7,498)	(3,046)	(59)
Other provision	(434)	(1,811)	318
Main components of balance sheet closing balances	2017	2018	%
Total assets	1,821,613	1,837,158	1
Gross customer loans	1,121,938	1,178,848	5
Gross customer loans (FX-adjusted)	1,166,262	1,178,848	1
Retail loans	648,330	662,747	2
Corporate loans	498,462	498,332	0
Car financing loans	19,470	17,768	(9)
Allowances for possible loan losses	(63,752)	(71,186)	12
Allowances for possible loan losses (FX-adjusted)	(66,389)	(71,186)	7
Deposits from customers	1,395,087	1,424,746	2
Deposits from customer (FX-adjusted)	1,454,609	1,424,746	(2)
Retail deposits	1,033,638	1,049,946	2
Corporate deposits	420,971	374,800	(11)
Liabilities to credit institutions	132,765	85,702	(35)
Total shareholders' equity	238,935	269,126	13
Loan Quality	2017	2018	%/pps
Stage 3 loan volume under IFRS 9 (in HUF million)		89,059	
Stage 3 loans under IFRS 9/gross customer loans		7.6%	
Provision for impairment on loan and placement losses/average gross loans	0.85%	0.26%	(0.59)
90+ days past due loan volume (in HUF million)	74,325	65,011	(13)
90+ days past due loans/gross customer loans	6.6%	5.5%	(1.1)
Total provisions/90+ days past due loans	85.8%	109.5%	23.7
Performance Indicators	2017	2018	pps
ROA	1.3%	1.4%	0.1
ROE	9.3%	9.6%	0.3
Total income margin	4.70%	4.27%	(0.42)
Net interest margin	3.27%	2.95%	(0.32)
Cost/income ratio	54.8%	54.7%	(0.1)
Net loans to deposits (FX-adjusted)	76%	78%	2
FX rates	2017 HUF	2018 HUF	Change %
HUF/HRK (closing)	41.6	43.4	4
HUF/HRK (average)	41.4	42.3	2

- ***The integration of Splitska banka was completed in December***
- ***The Croatian operation posted HUF 25 billion in 2018.***
- ***Y-o-y lower net interest margin is explained mainly by the dilution effect of tighter margins at Splitska banka***
- ***Performing loan volumes expanded by 2% y-o-y, whereas deposits suffered similar drop in 2018 (on an FX-adjusted basis)***

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 in May 2017.

In December 2018 the integration of Splitska banka was successfully completed: Splitska banka d.d. merged into OTP banka Hrvatska dd., and the business and technology merger was completed.

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.

The **Croatian operation** (with Splitska banka) posted HUF 25 billion adjusted profit in 2018. The annual ROE stood at 9.6%.

The comparability of the financial performance on a yearly base is limited, as 2017 figures incorporated only eight months contribution from Splitska banka, as the consolidation happened in May 2017.

In 2018 the operating result improved by 23% y-o-y. Within that net interest income increased by 22% y-o-y in HUF terms. The decline in annual net interest margin (-32 bps) was mainly reasoned by the dilution effect of the lower margin at Splitska banka.

The annual net fee income surged by 27% y-o-y, and other net non-interest income increased by 22%, respectively.

In 2018 operating expenses increased by 39% y-o-y. During the whole year 52 branches were closed down. The number of employees (based on FTE) decreased by 33 persons. The cost-to-income ratio at the end of 2018 stood at 54.7%.

2018 total risk cost dropped by 39% against the base period, as a result the annual credit risk cost rate declined below 30 bps.

The volume of sold/written off loans volumes amounted to HUF 7 billion on an FX-adjusted basis. The DPD90+ ratio of the Croatian operation decreased to 5.5% (-1.1 pps y-o-y). The Stage 3 ratio under IFRS 9 stood at 7.6% at the end of 2018.

From a lending point of view, 2018 demonstrated a favourable picture: despite the ongoing integration process the volume of performing loans increased by 2% y-o-y.

Total deposit base shrank by 2% y-o-y. On a yearly base the increase in the volumes of retail site deposits somewhat offset the decline in term deposits. The corporate deposit volume erosion was related to deposit withdrawals by a couple of large clients.

OTP BANK UKRAINE

Performance of OTP Bank Ukraine:

Main components of P&L account	2017 HUF million	2018 HUF million	Change %
After tax profit without the effect of adjustments	14,120	24,415	73
Income tax	(2,954)	(4,760)	61
Profit before income tax	17,074	29,175	71
Operating profit	18,876	30,095	59
Total income	34,595	47,145	36
Net interest income	23,060	33,040	43
Net fees and commissions	9,716	11,444	18
Other net non-interest income	1,819	2,661	46
Operating expenses	(15,719)	(17,050)	8
Total provisions	(1,802)	(920)	(49)
Provision for impairment on loan and placement losses	(1,060)	(1,680)	59
Other provision	(742)	760	
Main components of balance sheet closing balances	**2017**	**2018**	**%**
Total assets	312,334	391,240	25
Gross customer loans	287,236	354,258	23
Gross customer loans (FX-adjusted)	314,914	354,258	12
Retail loans	120,845	127,413	5
Corporate loans	173,463	199,493	15
Car financing loans	20,607	27,352	33
Gross DPD0-90 customer loans (FX-adjusted)	231,810	300,724	30
Retail loans	48,545	75,922	56
Corporate loans	166,272	197,693	19
Car financing loans	16,993	27,109	60
Allowances for possible loan losses	(90,163)	(72,753)	(19)
Allowances for possible loan losses (FX-adjusted)	(98,746)	(72,753)	(26)
Deposits from customers	234,943	269,832	15
Deposits from customer (FX-adjusted)	256,762	269,832	5
Retail deposits	106,942	123,833	16
Corporate deposits	149,819	145,999	(3
Liabilities to credit institutions	33,985	48,197	42
Subordinated debt	0	4,903	
Total shareholders' equity	34,079	57,821	70
Loan Quality	**2017**	**2018**	**%/pps**
Stage 3 loan volume under IFRS 9 (in HUF million)		88,604	
Stage 3 loans under IFRS 9/gross customer loans		25.01%	
Provision for impairment on loan and placement losses/average gross loans	0.31%	0.51%	0.20
90+ days past due loan volume (in HUF million)	75,922	53,534	(29)
90+ days past due loans/gross customer loans	26.4%	15.1%	(11.3)
Total provisions/90+ days past due loans	118.8%	135.9%	17.1
Performance Indicators	**2017**	**2018**	**pps**
ROA	4.6%	6.8%	2.2
ROE	47.1%	55.6%	8.5
Total income margin	11.19%	13.15%	1.95
Net interest margin	7.46%	9.21%	1.75
Cost/income ratio	45.4%	36.2%	(9.3)
Net loans to deposits (FX-adjusted)	84%	104%	20
FX rates	**2017 HUF**	**2018 HUF**	**Change %**
HUF/UAH (closing)	9.2	10.1	10
HUF/UAH (average)	10.3	9.9	(4)

- ***Highest profitability within the Group (2018 ROE: 56%)***
- ***All-time-high yearly net earnings of HUF 24.4 billion (+78% in UAH terms) mainly as a result of improving operating profit and halving risk cost due to favourable credit quality trends***
- ***The DPD90+ ratio dropped significantly y-o-y due to write offs and sales (15.1%)***
- ***Performing loan volumes advanced by 30% y-o-y (FX-adjusted)***

The financial performance and indicators of OTP Bank Ukraine in HUF terms were affected by the HUF/UAH exchange rate moves: in 2018 the closing rate of UAH strengthened by 10% y-o-y. The yearly average rate weakened by 4% 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 24.4 billion adjusted after tax profit in 2018, marking a 73% increase compared to 2017 (+78% in local currency terms). The 2018 ROE reached 56%, the highest among subsidiary banks across the Group.

Given the significant HUF/UAH cross-currency moves y-o-y and q-o-q, we rather analyse the P&L developments in UAH terms.

In 2018 operating result surged by 64% y-o-y in UAH terms, the key reason was the 48% y-o-y increase in net interest income and a 21% surge in net fee and commission income. The y-o-y NII dynamics were positively influenced by the growing volume of performing loans (+30% y-o-y, FX-adjusted) and also by the average interest paid on deposits being stable in 2018 in spite of the higher interest rate environment, whereas interest rates realized on assets developed favourably. 2018 net interest margin advanced to 9.21% (+1.75 pps y-o-y).

In 2018 net fee and commission income surged by 21% y-o-y in local currency terms, supported by stronger fee income on corporate transactions and credit cards.

2018 operating expenses in UAH terms increased by 12% y-o-y mainly on the back of increasing personnel expenses amid 10.9% average inflation, whereas the average nominal wage inflation in Ukraine reached 25% (within that 29% in the financial sector).

For the whole year risk cost was almost half of the 2017 figure; provision for impairment on loan and placement losses to average gross loans increased by 20 bps to 0.5% y-o-y. Portfolio quality trends remained positive; the DPD90+ volumes (FX-adjusted and excluding the impact of loan sales and write-offs) grew in 2018 by HUF 4 billion.

During the last twelve months around HUF 40 billion equivalent non-performing loans were sold or written off. As a result, the DPD90+ ratio dropped to 15.1% (-11.3 pps y-o-y). The volume of Stage 3 loans within total gross loans was 25.0% at the end of 2018.

The FX-adjusted total performing loan book grew by 30% y-o-y. Within that especially the volume of retail loans grew dynamically (+56% y-o-y). The outstanding increase of consumer exposures (+87% y-o-y) was induced by credit card and POS volumes. Loan origination in 2018 was outstanding in the POS and cash loan segments (+80 and +133% in UAH terms y-o-y, respectively). Mortgage lending has not been resumed, thus the performing mortgage book eroded further (-36% y-o-y). Car financing has been re-started in 1Q 2017 and their FX-adjusted volumes surged by 60% y-o-y. Performing corporate exposures that represent two third of the total loan portfolio grew by 19% y-o-y. Alongside the steady disbursement activity in the corporate loan segment, the leasing also demonstrated significant uptick.

Deposits (adjusted for the FX-effect) grew by 5% y-o-y. As a result, the net loan-to-deposit ratio still reflects a balanced balance sheet structure (end-2018: 104%, +20 pps y-o-y, FX-adjusted).

The outstanding net intragroup funding towards the Ukrainian operation comprised USD 116 million equivalent at the end of 2018.

OTP BANK ROMANIA

Performance of OTP Bank Romania:

Main components of P&L account	2017 HUF million	2018 HUF million	Change %
After tax profit without the effect of adjustments	3,036	3,850	27
Income tax	(916)	(1,051)	15
Profit before income tax	3,952	4,902	24
Operating profit	9,346	10,585	13
Total income	27,138	30,759	13
Net interest income	19,779	23,410	18
Net fees and commissions	3,064	3,563	16
Other net non-interest income	4,295	3,786	(12)
Operating expenses	(17,792)	(20,174)	13
Total provisions	(5,394)	(5,683)	5
Provision for impairment on loan and placement losses	(5,062)	(4,794)	(5)
Other provision	(332)	(890)	168
Main components of balance sheet closing balances	2017	2018	%
Total assets	624,060	771,968	24
Gross customer loans	535,140	577,565	8
Gross customer loans (FX-adjusted)	557,425	577,565	4
Retail loans	394,082	398,007	1
Corporate loans	163,342	179,558	10
Allowances for possible loan losses	(56,909)	(35,444)	(38)
Allowances for possible loan losses (FX-adjusted)	(60,032)	(35,444)	(41)
Deposits from customers	337,691	434,937	29
Deposits from customer (FX-adjusted)	350,815	434,937	24
Retail deposits	262,980	331,920	26
Corporate deposits	87,835	103,017	17
Liabilities to credit institutions	196,377	232,391	18
Total shareholders' equity	53,481	60,047	12
Loan Quality	2017	2018	%/pps
Stage 3 loan volume under IFRS 9 (in HUF million)		51,771	
Stage 3 loans under IFRS 9/gross customer loans		9.0%	
Provision for impairment on loan and placement losses/average gross loans	0.9%	0.9%	(0.1)
90+ days past due loan volume (in HUF million)	72,133	29,583	(59.0)
90+ days past due loans/gross customer loans	13.5%	5.1%	(8.4)
Total provisions/90+ days past due loans	78.9%	119.8%	40.9
Performance Indicators	2017	2018	pps
ROA	0.5%	0.6%	0.1
ROE	6.8%	7.5%	0.7
Total income margin	4.49%	4.46%	(0.03)
Net interest margin	3.27%	3.39%	0.12
Cost/income ratio	65.6%	65.6%	0.0
Net loans to deposits (FX-adjusted)	142%	125%	(17)
FX rates	2017 HUF	2018 HUF	Change %
HUF/RON (closing)	66.6	69.0	4
HUF/RON (average)	68.9	69.6	1

- ***The Romanian subsidiary posted HUF 3.9 billion profit in 2018***
- ***The annual operating profit increased by 13% y-o-y as a result of increasing total income (+13% y-o-y) and higher operating expenses (+13% y-o-y)***
- ***Performing loan volumes (FX-adjusted) increased by 14% y-o-y supported by robust mortgage and SME lending dynamics***

OTP Bank Romania posted HUF 3.9 billion net profit in 2018, by 27% more than in the base period.

The annual operating profit improved by 13% y-o-y as a result of higher total income and higher operating expenses (both items surged by 13% each).

The annual net interest income improved by 18%y-o-y supported by increasing performing loan volumes, while annual net interest margin improved by 12 bps y-o-y in the increasing interest rate environment.

The annual net fee and commission income expanded by 16% y-o-y mainly as a result of higher deposit, transaction and card-related income. Other net non-interest income dropped by 12% y-o-y partially due to a loss on securities and property sales.

The annual operating expenses grew by 13% y-o-y, within that personnel expenses advanced even faster partially induced by wage inflation (in 2018 employers' average wage costs went up by more than 8% in the financial sector) and the average headcount growth (+7% y-o-y) reasoned by strengthening business activity. Furthermore, higher marketing, hardware and office equipment costs also added to the overall increase of operating expenses,.

The annual amount of total risk cost amounted to -HUF 5.7 billion, +5% y-o-y.

DPD90+ volumes (FX-adjusted, without sales and write-offs) declined by HUF 2.6 billion in 2018 (versus an increase of HUF 1.9 billion in 2017). During 2018 HUF 42 billion problem loans were sold/written off. The DPD90+ ratio declined to 5.1% (-8.4 pps y-o-y). The share of Stage 3 exposures represented 9.0% of total gross loans at the end of 2018.

The FX-adjusted performing loan volumes increased by 14% y-o-y supported both by the retail and corporate segments. Within the retail portfolio mortgage volumes demonstrated a 9% y-o-y growth, whereas SME volumes surged by 33% y-o-y. The large corporate exposure advanced by 17% y-o-y. As for annual new loan disbursements mortgage sales (+56% y-o-y) and the SME segment (+48% y-o-y) showed outstanding dynamics.

FX-adjusted deposit volumes increased by 29% y-o-y. The growth was supported by both retail and corporate inflows. The net loan-to-deposit ratio declined to 125%.

OTP BANKA SRBIJA (SERBIA)

Performance of OTP banka Srbija (including Vojvodjanska banka):

Main components of P&L account	2017 HUF million	2018 HUF million	Change %
After tax profit without the effect of adjustments	(2,904)	2,999	(203)
Income tax	109	(138)	(226)
Profit before income tax	(3,013)	3,137	(204)
Operating profit	1,360	6,227	358
Total income	10,071	30,306	201
Net interest income	7,235	20,514	184
Net fees and commissions	2,275	7,286	220
Other net non-interest income	561	2,507	347
Operating expenses	(8,711)	(24,079)	176
Total provisions	(4,373)	(3,090)	(29)
Provision for impairment on loan and placement losses	(3,133)	(3,146)	0
Other provision	(1,241)	56	(105)
Main components of balance sheet closing balances	2017	2018	%
Total assets	482,887	590,166	22
Gross customer loans	306,874	395,217	29
Gross customer loans (FX-adjusted)	319,010	395,217	24
Retail loans	162,255	185,641	14
Corporate loans	156,755	209,576	34
Allowances for possible loan losses	(19,759)	(14,774)	(25)
Allowances for possible loan losses (FX-adjusted)	(20,534)	(14,774)	(28)
Deposits from customers	349,553	372,961	7
Deposits from customer (FX-adjusted)	363,123	372,961	3
Retail deposits	248,029	260,623	5
Corporate deposits	115,094	112,338	(2)
Liabilities to credit institutions	38,397	117,169	205
Subordinated debt	2,505	0	(100)
Total shareholders' equity	80,070	84,848	6
Loan Quality	2017	2018	%/pps
Stage 3 loan volume under IFRS 9 (in HUF million)		18,819	
Stage 3 loans under IFRS 9/gross customer loans		4.8%	
Provision for impairment on loan and placement losses/average gross loans	2.64%	0.90%	(1.73)
90+ days past due loan volume (in HUF million)	28,372	15,322	(46.0%)
90+ days past due loans/gross customer loans	9.2%	3.9%	(5.4)
Total provisions/90+ days past due loans	69.6%	96.4%	26.8
Performance Indicators	2017	2018	pps
ROA	(2.0%)	0.6%	2.6
ROE	(9.5%)	3.7%	13.2
Total income margin	6.84%	5.84%	(1.00)
Net interest margin	4.92%	3.95%	(0.96)
Cost/income ratio	86.5%	79.5%	(7.0)
Net loans to deposits (FX-adjusted)	82%	102%	20
FX rates	2017 HUF	2018 HUF	Change %
HUF/RSD (closing)	2.6	2.7	4
HUF/RSD (average)	2.5	2.5	0

- ***The Serbian operation posted HUF 3 billion profit in 2018, out of which the contribution of Vojvodjanska banka comprised HUF 2.7 billion***
- ***The annual operating income reached HUF 6.2 billion, 61% of that came from Vojvodjanska banka***
- ***Performing loan volumes further increased (+31% y-o-y) supported by both the retail and corporate segments***

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 1st December 2017 and Vojvodjanska banka was consolidated.

The comparability of the financial performance on a yearly base is limited, as the contribution from Vojvodjanska banka was consolidated from December 2017.

The transaction on the purchase of Societe Generale banka Srbija announced on 20 December 2018 has not been completed yet, as a result 2018 financial statements incorporated neither the P&L nor the balance sheet of Societe Generale banka Srbija. The purchase price has not been made public on the request of the seller.

The Serbian P&L account was adjusted for the one-off items directly related to the acquisitions; 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 3 billion profit after tax in 2018 versus a loss of similar magnitude in the base period. Out of the annual profit Vojvodjanska banka added HUF 2.7 billion to the Serbian after tax profit.

The annual operating profit advanced by HUF 4.9 billion y-o-y and reached HUF 6.2 billion; out of the y-o-y improvement the contribution of Vojvodjanska banka comprised HUF 3.5 billion.

As for the yearly dynamics of income lines (adjusted by a one months contribution from Vojvdjanska banka in 2017) net interest income increased by 16% y-o-y as a result of stronger interest income on expanding performing loan volumes; net fees went up by 12% y-o-y due to improving deposit- and card-related fees.

The annual net interest margin dropped by 96 bps y-o-y and it was partly the result of the dilution effect through the consolidation of the lower margin Vojvodjanska banka.

Out of the total volume of operating expenses around HUF 16.2 billion was related to Vojvodjanska banka.

Credit quality trends remained favourable. Total risk costs in 2018 comprised -HUF 3.1 billion. Bulk of risk costs were booked in 3Q as a result of the introduction of new collateral appraisal rules which induced an additional HUF 1.8 billion lending related provision increase in case of individually appraised clients.

During 2018 there were HUF 14 billion non-performing portfolio sales or write-offs, occurring mainly in 2Q and 4Q. The DPD90+ ratio dropped to 3.9% at the end of 2018.The volume of Stage 3 exposures amounted to HUF 18.8 billion at the end of the year, which is 4.8% of total gross loans.

The yearly volume growth of the performing (DPD0-90) loan portfolio exceeded 31% demonstrating the most robust increase across the whole Group. The engine of growth was the corporate segment (+44% y-o-y, FX-adjsuted) as a result of strong underwriting dynamics, but the retail segment also supported the portfolio increase (+22% y-o-y).

The FX-adjusted deposit base expanded y-o-y (+3%). The yearly dynamics enjoyed inflows from the retail and SME segments.

As a result of the fast loan portfolio growth the net loan-to-deposit ratio of the Serbian operation surged by 20% y-o-y and closed around 100% which reflects a well-balanced balance sheet structure.

CRNOGORSKA KOMERCIJALNA BANKA (MONTENEGRO)

Performance of CKB:

Main components of P&L account	2017 HUF million	2018 HUF million	Change %
After tax profit w/o dividends and net cash transfer	(155)	2,214	
Income tax	(11)	(326)	
Profit before income tax	(144)	2,540	
Operating profit	1,802	2,605	45
Total income	9,709	10,729	11
Net interest income	6,543	7,529	15
Net fees and commissions	3,319	3,227	(3)
Other net non-interest income	(153)	(27)	(83)
Operating expenses	(7,907)	(8,125)	3
Total provisions	(1,947)	(65)	(97)
Provision for impairment on loan and placement losses	(864)	(46)	(95)
Other provision	(1,083)	(19)	(98)
Main components of balance sheet closing balances	**2017**	**2018**	**%**
Total assets	197,590	224,892	14
Gross customer loans	138,485	157,043	13
Gross customer loans (FX-adjusted)	143,562	157,043	9
Retail loans	75,662	73,027	(3)
Corporate loans	67,900	83,983	24
Car financing loans	0	33	
Allowances for possible loan losses	(38,899)	(28,265)	(27)
Allowances for possible loan losses (FX-adjusted)	(40,325)	(28,265)	(30)
Deposits from customers	152,316	175,740	15
Deposits from customer (FX-adjusted)	158,265	175,740	11
Retail deposits	121,092	131,227	8
Corporate deposits	37,173	44,513	20
Liabilities to credit institutions	17,962	2,364	(87)
Subordinated debt	0	0	
Total shareholders' equity	21,127	38,637	83
Loan Quality	**2017**	**2018**	**%/pps**
Stage 3 loan volume under IFRS 9 (in HUF million)		33,096	
Stage 3 loans under IFRS 9/gross customer loans		21.1%	
Provision for impairment on loan and placement losses/average gross loans	0.6%	0.0%	(0.6)
90+ days past due loan volume (in HUF million)	43,395	27,993	(35.5)
90+ days past due loans/gross customer loans	31.34%	17.82%	(13.5)
Total provisions/90+ days past due loans	89.6%	101.0%	11.3
Performance Indicators	**2017**	**2018**	**pps**
ROA	(0.1%)	1.1%	1.1
ROE	(0.7%)	7.3%	8.0
Total income margin	5.02%	5.09%	0.07
Net interest margin	3.38%	3.57%	0.19
Cost/income ratio	81.4%	75.7%	(5.7)
Net loans to deposits (FX-adjusted)	65%	73%	8
FX rates	**2017 HUF**	**2018 HUF**	**Change %**
HUF/EUR (closing)	310.1	321.5	4
HUF/EUR (average)	309.2	318.9	3

- ***In 2018 the Bank posted HUF 2.2 billion profit, which was supported by the substantial improvement of operating profit and the decline of risk costs***
- ***The annual operating profit increased by 45% y-o-y as a result of the total income increasing by 11% and the operating expenses by 3%, respectively***
- ***The FX-adjusted performing loan volume grew dynamically, by 31% y-o-y supported mainly by the corporate segment (+73% y-o-y)***
- ***The DPD90+ ratio (17.8%) declined by 13.5 pps y-o-y***

The Montenegrin **CKB Bank** posted HUF 2.2 billion after tax profit, versus HUF 0.2 billion loss in the base period. The improvement was mainly due to operating result increasing by 45% y-o-y and risk cost declining substantially.

The annual operating profit increased by 45% y-o-y as a result of the total income increasing by 11% and the operating expenses by 3%, respectively.

The annual net interest income grew by 15%: the dynamically increasing performing volumes had a positive impact. Furthermore, certain loan-related income previously booked within net fees and commissions was shifted into net interest income since January 2018 (HUF 0.3 billion y-o-y impact). The net interest margin improved by 19 bps y-o-y.

The annual net fee and commission income declined by 3%, without the above mentioned reclassification it would have increased by 6.5% y-o-y.

The annual operating expenses increased by 3% mainly due to the depreciation of Hungarian forint against the euro, the expenses in euro terms remained stable.

In 2018 total risk cost amounted to -HUF 0.1 billion. The DPD90+ ratio (17.8%) improved by 13.5 pps y-o-y. During 2018 HUF 15 billion non-performing loans were sold/written off. The share of Stage 3 exposures represented 21.1% of total gross loans at the end of 2018.

The FX-adjusted performing loan volume grew the second fastest in the Group, by 31% y-o-y. The strong dynamics were mainly related to the corporate segment. Within that the wholesale loan volumes increased by 30% y-o-y, municipality exposures – from a low base – increased more than four times y-o-y as a result of a large ticket loan disbursement towards the state in 2Q. The retail volumes expanded by 4% y-o-y in 2018, within that the mortgage loans by 10% y-o-y, respectively.

FX-adjusted deposit volumes increased by 11% y-o-y. The net loan-to-deposit ratio increased by 8 pps to 73%.

OTP BANKA SLOVENSKO (SLOVAKIA)

Performance of OTP Banka Slovensko*:

Main components of P&L account	2017 HUF million	2018 HUF million	Change %
After tax profit without the effect of adjustments	(2,051)	44	(102)
Income tax	(231)	(56)	(76)
Profit before income tax	(1,820)	100	(106)
Operating profit	6,616	2,598	(61)
Total income	17,452	15,014	(14)
Net interest income	13,358	11,148	(17)
Net fees and commissions	3,627	3,536	(3)
Other net non-interest income	467	330	(29)
Operating expenses	(10,836)	(12,416)	15
Total provisions	(8,436)	(2,498)	(70)
Provision for impairment on loan and placement losses	(8,358)	(2,579)	(69)
Other provision	(78)	81	(204)
Main components of balance sheet closing balances	**2017**	**2018**	**%**
Total assets	452,084	454,498	1
Gross customer loans	382,932	393,111	3
Gross customer loans (FX-adjusted)	396,969	393,111	(1)
Retail loans	343,023	340,776	(1)
Corporate loans	53,917	52,320	(3)
Allowances for possible loan losses	(28,098)	(31,582)	12
Allowances for possible loan losses (FX-adjusted)	(29,128)	(31,582)	8
Deposits from customers	343,924	360,069	5
Deposits from customer (FX-adjusted)	356,595	360,069	1
Retail deposits	330,742	331,734	0
Corporate deposits	25,853	28,336	10
Liabilities to credit institutions	10,020	22,725	127
Subordinated debt	6,205	8,691	40
Total shareholders' equity	32,200	29,382	(9)
Loan Quality	**2017**	**2018**	**%/pps**
Stage 3 loan volume under IFRS 9 (in HUF million)		35,916	
Stage 3 loans under IFRS 9/gross customer loans		9.1%	
Provision for impairment on loan and placement losses/average gross loans	2.17%	0.65%	(1.51)
90+ days past due loan volume (in HUF million)	35,968	29,160	(19)
90+ days past due loans/gross customer loans	9.4%	7.4%	(2.0)
Total provisions/90+ days past due loans	78.1%	108.3%	30.2
Performance Indicators	**2017**	**2018**	**pps**
ROA	(0.5%)	0.0%	0.5
ROE	(7.6%)	0.2%	7.7
Total income margin	3.90%	3.32%	(0.58)
Net interest margin	2.98%	2.47%	(0.52)
Cost/income ratio	62.1%	82.7%	20.6
Net loans to deposits (FX-adjusted)	103%	100%	(3)
FX rates	**2017 HUF**	**2018 HUF**	**Change %**
HUF/EUR (closing)	310.1	321.5	4
HUF/EUR (average)	309.2	317.5	3

* Note: P&L lines and performance indicators are adjusted for the banking tax, Deposit Protection Fund contributions and payments into the Resolution Fund.

- ***In 2018 the Bank posted HUF 44 million profit, after HUF 2.1 billion loss in 2017. Total risk costs dropped by 70%, while the operating profit fell by 61%***
- ***The FX adjusted performing loan volumes increased by 1% y-o-y***
- ***The DPD90+ ratio (7.4%) decreased by 2 pps y-o-y***

The **OTP Banka Slovensko** posted HUF 44 million after tax profit versus HUF 2.1 billion loss in the base period.

The annual profit was mainly shaped by decreasing risk costs (-70% y-o-y), while the operating profit also suffered a significant decline (-61% y-o-y): all income lines decreased, while the operating expenses increased by 15%. The net interest income declined by 17% y-o-y, because from 2018 certain items previously booked in net interest income do not appear on net interest income line (lower net interest income was coupled with lower risk costs). Furthermore, the new disbursements on lower interest rate also had a negative impact. The annual net interest margin declined by 52 bps.

The annual net fee and commission income decreased by 3% due to the lower income on deposits and loans.

The annual operating expenses increased by 15% y-o-y due to higher personnel expenses induced by wage inflation and increasing headcount, but also to higher marketing expenses.

The FX-adjusted performing loan volumes increased by 1% y-o-y, the mortgage and municipality loan volumes registered faster expansion (both +3% y-o-y). On the other hand the consumer and SME loans declined by 1% y-o-y in 2018. The strongest disbursement activity was realized at the SME and large corporate loan (+20% y-o-y) segments.

The DPD90+ ratio decreased to 7.4% (-2.0 pps y-o-y). In 2018 around HUF 8 billion equivalent non-performing loans were sold or written off as part of porfolio cleaning. The share of Stage 3 exposures represented 9.1% of total gross loans at the end of 2018. Total risk costs dropped significantly on a yearly basis (-70% y-o-y).

FX-adjusted deposit volumes increased by 1% y-o-y, thus the net loan-to-deposit ratio stood at 100% at the end of 2018.

STAFF LEVEL AND OTHER INFORMATION

	31/12/2017				31/12/2018			
	Branches	ATM	POS	Headcount (closing)	Branches	ATM	POS	Headcount (closing)
OTP Core	362	1,945	70,002	9,049	362	1,931	77,599	9,631
DSK Group	367	890	7,005	4,872	345	911	8,464	4,838
OTP Bank Russia[1] (w/o employed agents)	134	230	1,079	4,956	134	227	905	5,052
Touch Bank (Russia)	0	0	0	356	-	-	-	-
OTP Bank Ukraine (w/o employed agents)	85	115	382	2,224	87	149	351	2,313
OTP Bank Romania	96	139	4,351	1,163	95	139	4,556	1,273
OTP banka Hrvatska	196	528	10,765	2,430	144	480	10,360	2,397
OTP Banka Slovenko	62	148	276	674	62	151	232	690
OTP banka Srbija	157	254	5,098	2,103	154	248	5,554	1,996
CKB	29	91	4,070	429	28	103	4,572	419
Foreign subsidiaries, total	**1,126**	**2,395**	**33,026**	**19,206**	**1,049**	**2,408**	**34,994**	**18,977**
Other Hungarian and foreign subsidiaries				860				924
OTP Group (w/o employed agents)				**29,116**				**29,532**
OTP Bank Russia - employed agents				5,771				5,306
OTP Bank Ukraine - employed agents				747				760
OTP Group (aggregated)	**1,488**	**4,340**	**103,028**	**35,633**	**1,411**	**4,339**	**112,593**	**35,599**

[1] From 2018 OTP Bank Russia includes Touch Bank's figures, while until 4Q 2017 Touch Bank was showed as a separate entity.

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.
The Recommendations contain both recommendations that are binding for all organisations and non-binding proposals. Organisations may derogate both from binding recommendations and non-binding proposals. In the event of derogation from the recommendations, organisations are required to publish and justify the derogation in their corporate governance reports ('comply or explain'). This enables organisations to take industry and company-specific requirements into account. Accordingly, even organisations derogating from the recommendations can comply with corporate governance requirements under certain circumstances. Concerning the proposals, organisations should indicate whether they apply a given guideline or not, and they can also explain any derogation from the proposals.
OTP Bank Plc. provided positive answers to all recommendations and suggestions.

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 independent internal audit organisation has unrestricted access to information, documents and data necessary for conducting investigations, and is kept informed of changes in group structure, risks, and 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 report in respect of the operation of risk management, internal control mechanisms and corporate governance functions, and in accordance with the Credit Institutions Act annually reports to the Supervisory Board and the Board of Directors on the regularity of internal audit tasks, professional requirements and the conduct of audit, as well as on the review of compliance with the IT and other technical requirements for audits.

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.

Description of owner	Total equity					
	1 January 2018			31 December 2018		
	Ownership share	Voting rights[1]	Quantity	Ownership share	Voting rights[1]	Quantity
Domestic institution/company	20.04%	20.26%	56,116,209	19.32%	19.47%	54,092,340
Foreign institution/company	63.73%	64.44%	178,445,190	60.01%	60.49%	168,017,080
Domestic individual	3.92%	3.97%	10,988,183	3.53%	3.56%	9,896,546
Foreign individual	0.23%	0.23%	650,713	0.10%	0.10%	278,348
Employees, senior officers	0.80%	0.81%	2,250,991	0.85%	0.86%	2,376,450
Treasury shares[2]	1.09%	0.00%	3,063,853	0.80%	0.00%	2,242,143
Government held owner	0.08%	0.08%	226,012	0.08%	0.08%	219,072
International Development Institutions	0.03%	0.03%	70,502	0.05%	0.05%	143,308
Other[3]	10.07%	10.18%	28,188,357	15.26%	15.39%	42,734,723
TOTAL	**100.00%**	**100.00%**	**280,000,010**	**100.00%**	**100.00%**	**280,000,010**

[1] Voting rights in the General Meeting of the Issuer for participation in decision-making.
[2] Treasury shares do not include the OTP shares held by ESOP.
[3] Non-identified shareholders according to the shareholders' registry.

Number of treasury shares held in the year under review (2018)

	1 January	31 March	30 June	30 September	31 December
OTP Bank	990,293	997,581	633,956	543,770	168,583
Subsidiaries	2,073,560	2,073,560	2,073,560	2,073,560	2,073,560
TOTAL	3,063,853	3,071,141	2,707,516	2,617,330	2,242,143

Shareholders with over/around 5% stake as at 31 December 2018

Name	Number of shares	Ownership[1]	Voting rights[1,2]
MOL (Hungarian Oil and Gas Company Plc.)	24,000,000	8.57%	8.64%
KAFIJAT Ltd.	20,811,325	7.43%	7.49%
OPUS Securities S.A.	14,496,476	5.18%	5.22%
Groupama Group	14,338,498	5.12%	5.16%

[1] Rounded to two decimals
[2] Voting rights in the General Meeting of the Issuer for participation in decision-making.

Committees[13]

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
Mr. Olivier Péqueux
Dr. Márton Gellért Vági
Ms. Ágnes Rudas
Mr. András Michnai

Members of the Audit Committee
Dr. Gábor József Horváth – Chairman
Mr. Tibor Tolnay
Mr. Dominique Uzel
Mr. Olivier Péqueux
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

Mr. Dominique Uzel resigned his membership from the Supervisory Board and Audit Committee with effect from 13 April 2018.

The Annual General Meeting elected Mr. Olivier Péqueux 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 elected Olivier Péqueux 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 elected Deloitte Auditing and Consulting Ltd. (000083, H-1068 Budapest, Dózsa György út 84/c) as the Bank's auditor to audit OTP Bank Plc.'s separate and consolidated annual financial statements in accordance with International Financial Reporting Standards for the year 2018, from 1 May 2018 until 30 April 2019.

Based on the decision of the Board of Directors Dr. Zsolt Barna – possessing the necessary supervisory permission – was appointed as General Deputy Chief Executive Officer from 1 September 2018 to run the Group Governance and Operations Division.

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 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.

[13] Personal changes can be found in the „Personal and organizational changes" chapter.

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 7 meetings, while the Audit Committee gathered 2 times in 2018. In addition, resolutions were passed by the Board of Directors on 102, by the Supervisory Board on 48 and by the Audit Committee on 24 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 7 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 2018 is a group-level report that meets the GRI (Global Reporting Initiative) Standard and is certified by an independent third party. It is available at the Sustainability section of OTP Bank's website.

Commitment to society

Responsible financial services, credit risk management

Our products and services are aimed at helping our customers meet their needs and achieve their financial goals. We are always on the lookout for new opportunities, and are continuously working to improve our operations and services in order to better meet new challenges and demands. We remain reliable partners for our customers. Transparent and prudent operations are the cornerstone of all our activities, and maintaining the stability of the Banking Group is one of our most key priorities.

Security is also a top concern, with IT security specifically becoming increasingly prominent. We are focusing on the use of increasingly advanced security systems, and on raising awareness among our employees and customers. Our low number of security incidents—even by international standards—speaks for itself, and is proof of the effective operation of our security systems.

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 2018, we continued to pay special attention to customers facing payment difficulties. In addition to the government programmes available, we also provided credit protection services, as well as unique solutions tailored to individual customer needs. We have worked to simplify and clarify our notifications and statements in an effort to make it even easier for our customers to keep themselves informed. Our website now also includes information on special payment options available for those finding themselves facing unexpected life challenges.

OTP Group's clear objective is to serve its customers faultlessly. Our Complaint Management Regulation and Complaint Management Policy are available to view in our branches and on our website.

Customer complaint features, OTP Bank*	2018
Number of warranted complaints	101,858
Proportion of warranted complaints	65%
Compensation paid (HUF million)	59

* Also includes data for OTP Lakástakarék and OTP Jelzálogbank.

Accessibility

As part of our Accessibility Strategy, we are continuously working to make both OTP Bank's digital services and our physical branches more accessible. The improvements are implemented by OTP Bank via a number of dedicated projects in cooperation with many civil and professional organisations such as the Hungarian Association of the Deaf and Hard of Hearing, the IT Foundation for the Visually Impaired, the Speech Technology and Smart Interaction Laboratory of the Budapest University of Technology, as well as Hand in Hand Foundation.

Our homepage redesign also included integrated accessibility improvements, support for text-to-speech software, keyboard shortcuts and closed captioning for our video content.

In 2018, physical accessibility continues to be provided in all but one of our branches[14]. In one-third of our branches, we also have tactile signs for the convenience of the visually impaired. Our branch queue management system has offered the option to request special services for persons with reduced mobility or persons who are deaf or hard-of-hearing for several years now. In addition, we have added physical

[14] Accessibility is not feasible at a single branch due to the characteristics of its building and environment.

push-buttons with touch controls, as well as Braille signs providing further information. KONTAKT Interpreter Services are accessible at 43 of our branches nationwide, allowing a sign language interpreter to assist with administration tasks through live video chat. Induction loop amplifier systems are also available, and 25 of our high-traffic branches have employees who can serve customers using sign language.

As of the end of 2018, 250 of our ATMs now have text-to-speech software installed. After connecting the earphones, the ATMs automatically switch to "speech mode", and in addition to the on-screen information, the software will help customers use the device, manage the platform and find the keyboard and the cash slot.

In addition to improving the accessibility of our own environment, we also consider raising social awareness to be an important responsibility. 2018 saw us launching a nationwide awareness-raising campaign to draw attention to the importance of the issue, while also providing the public with useful, easy-to-implement, practical advice.

Citizenship

OTP Bank is one of the most generous charitable donors in Hungary. In 2018, we have given a total of HUF 2,027 million in charitable donations. Our focus continues to be on:

– developing financial literacy, attitude-shaping;
– sponsoring culture and the arts: creating and preserving values;
– creating equal opportunities: helping the disadvantaged and those in need; and
– sports.

We aim to provide actual and effective help by supporting programmes and causes that serve the interests of society as a whole. Our foundations play a prominent role in the efficient allocation of donations, boasting a high level of professionalism and results-oriented thinking that fully meets our company's standards. The OTP Fáy András Foundation provides financial and economic education services, with the management of the OK Educational Centre being a key element thereof. The Humanitas Social Foundation provides healthcare and education-related donations to vulnerable communities and individuals. In order to use resources efficiently and productively, we cooperate with several local non-governmental organizations, concentrating our donated funds and monitoring how they are used, and with what results.

Responsible employment

Our employees play a key role in OTP Bank's success. Our aim is to create an inspirational and supportive environment for our employees, where they can demonstrate their talent and competencies.

Ethical and compliant behaviour constitute the basic principles in our human resource management. The interests of our employees are represented by their trade union, with their Collective Agreement setting out their rights and obligations. In our Code of Conduct, our Bank declares its commitment to providing a safe and healthy working environment and states its expectation of mutual respect between executives and employees, including the prohibition of discrimination and harassment.

OTP Bank's employees (31 December 2018)	Total	Men	Women
Employees, total (no. of persons)	8,725	2,617	6,108
Distribution by gender:	100%	30%	70%
Fluctuation ratio*	13%	13%	13%

* compared to the end-of-year headcount; includes termination of employment both by employee and employer, as well as retirement

We use a number of tools to support the retention of our highly capable and dedicated employees. We believe it is vital to have a fair and uniform assessment system focusing on core competencies, and to provide career opportunities based on fully transparent principles and requirements. We consistently employ the principle of "equal pay for equal work". We consider the professional development of our employees to be a top priority. In addition to professional training and competence development, we also run a talent programme. We regularly evaluate our level of employee satisfaction. We encourage healthy lifestyle choices, offering a complex health insurance package and subsidizing recreation and sports. We provide options for flexible working hours and part-time employment, within the objective limitations enforced by the various duties as outlined in our job descriptions. In addition, an increasing number of our employees are able to partially work from home.

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 Regulation. The Regulation both ensures legal compliance, and aims to consider environmental criteria and integrate them into the Bank's business operations in order to minimize the environmental impacts of operating and maintaining the Bank's organization. The Regulation also sets out the rules on how to enforce the principles of sustainable procurement. OTP Group members operate in full compliance with environmental legislation and received no fines in 2018 either.

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 credit ratings of large corporate clients.

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. The refurbishment of heat centres and related energy efficiency efforts are a key priority in the ongoing renovation of branches and bank centres. As part of the renovation process, we are also replacing air conditioning units, ensuring that the new units use environmentally friendly coolants. OTP Bank's new head office building will have LEED Gold certification. In 2018, we made further progress by refurbishing 13 branches of the parent bank to use LED lighting. The use of LED lighting continued to gain ground in our Serbian, Russian and Ukrainian subsidiaries in 2018. Our Ukrainian subsidiary also introduced automatic power saving mode for computers that had been inactive for a long time.

We are intensifying our reliance on renewable energy due to financial considerations. We added a new solar panel to the solar arrays installed at OTP Bank's Hungarian branches in 2018. As a result, our systems generated a total of 1,996 GJ of solar power. The central archives facility owned by Monicomp Ltd. has been using geothermal energy for several years. We are planning to install additional heat pumps in 2019. The solar panels of the Croatian OTP banka Hrvatska generated a total of 144 GJ of solar power in 2018.

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. OTP Bank introduced CO_2 emission limits in its vehicle policy in 2018. However, last year both our number of vehicles and the total distance travelled saw a 10% increase, due to company cars becoming available to a larger segment of our workforce. The number of electric cars owned by OTP Bank remained 2.

It will be possible to cut down on the amount of business travel by using video conferencing, an option that we are using more and more each year. In 2018, the number of videoconferencing rooms increased in the parent bank, as well as in the Bulgarian, Romanian and Russian subsidiaries. We continue adding new bicycle storage facilities for our customers and employees; in 2018 we installed storage space for approximately 100 new bicycles at the central buildings of OTP Bank, with changing rooms and showers also available within the installations. 58% of our branches nationwide have bicycle storage facilities. Our Ukrainian subsidiary also expanded its number of bicycle storage facilities.

We present the energy consumption figures of OTP Bank. The Bank's overall energy consumption did not change compared to the previous year. However, due to our workforce expansion, this represents an 8% reduction in per capita energy consumption. Alongside the implementation of energy-efficient solutions, there has been an expansion in functions that consume energy (e.g. digital processes, more brightly lit workplaces, air conditioners, water dispensers), and our vehicle fleet has also been expanded.

Energy consumption quantities, OTP Bank	2018
Total energy consumption (GJ)	250,660
Per-capita energy consumption (GJ)	28.82

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

For several years now, OTP Group has been working to reduce paper use and printing both in internal processes and as regards the documents and account statements delivered to customers. However, legislative requirements and the expansion of our business have often counteracted this aim. In 2018, the extensive use of digital signature pads at OTP Bank, as well as a reduction in the amount of paper forms required by the branch network, helped reduce our paper consumption by almost 25% in total. Our Croatian subsidiary reduced their paper consumption by 50% compared to the previous year.

Paper usage quantities, OTP Bank	2018
Total paper quantities (t) (office, packaging, indirect)	733
Per capita paper use (kg)*	84

* The projection basis is the average statistical headcount.

OTP Bank has used recycled paper for its account statements and marketing publications for years, and uses recycled paper for some of its office paper needs. Our aim is to increase the proportion of the latter in the near future. Our Croatian subsidiary has been using recycled paper almost exclusively for several years.

Sustainable use and waste management

We follow a principle of using all our equipment, devices and machines for the longest reasonably possible time. We explicitly aim to use furniture up to the end of their lifecycle, using them multiple times and ensuring compatibility. 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. In 2018, OTP Bank donated 450 pieces of furniture and 150 computers.

The subsidiaries in Montenegro and Slovakia use toner refills to reduce toner and ink cartridge waste.

We have made several improvements in our methods of waste collection in 2018. All members of OTP Group collect and manage hazardous waste and paper containing business secrets selectively, in compliance with the law. In addition to selective collection of non-confidential paper waste and PET bottles in the central office buildings of OTP Bank, we have also provided selective waste collection facility for glass in the newly refurbished workplaces, including most of our central buildings. In 2018, our Serbian subsidiary has implemented the selective waste collection of used toner and paper. As from the end of 2018, our Romanian subsidiary performs selective waste collection of paper, metal, glass and plastic not only in the central building, but also in its branches. We implemented the conditions for selective paper waste collection in the central building of our Ukrainian subsidiary. The Croatian subsidiary has collected waste selectively for years, whereas the Slovak subsidiary provides for selective waste collection wherever locally facilitated by the municipality. DSK Bank operates selective waste collection at its sites in Sofia and Varna.

Attitude shaping

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

- In 2018, we continued to help 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 2018, the bank has made a charitable donation to Budapest for municipal cleaning purposes.
- In order to partially offset its paper use, our Slovakian subsidiary continued to plant one tree for every 50 packs of paper purchased in 2018. The Bank has also participated in “Our City”, a volunteer project to improve the urban environment.
- Our Romanian subsidiary organised an internal competition in an effort to reduce internal printing by 20%. The three teams with the best performance have received prizes. Volunteers from the bank participated in the “Let’s Do It, Romania!” rubbish collection day, as well as donating unused clothing to people in need.
- In 2018, CKB of Montenegro has once again taken part in nationwide forestation and environmental protection campaigns.
- Volunteers from our Croatian subsidiary participated in forestation efforts in areas that had suffered fire damage.
- Our subsidiary in Serbia sends regular e-mails to its employees to advocate environmental awareness.

Risks

OTP Bank continues to analyse and manage the risks pertaining to environmental protection, employment, the respect of human rights and the fight against corruption and bribery within its operational risk management and compliance processes. 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 backtested with quarterly frequency.

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.

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 7 reports were received in 2018, 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: 196 closed investigations, 1,190 proposals, 1,188 accepted proposals;
- Compliance with Budapest Stock Exchange (BSE) Recommendations (yes/no ratio): 85 yes, 0 no;
- Compliance: 4 audits, 2,908 reports due to suspicion of money laundering;
- Bank security: expected damages arising from crimes detected: HUF 995.2 1,103.9 million, prevented damages: HUF 4,479.2 1,779.2 million; reported charges: 2,582; the ratio of bank card abuses to the turnover is 2.8 times better than the European average (OTP Bank 0.0146%, European average 0.0450%);
- Ethics issues: 7 ethics reports, establishing ethics offense in 1 case.

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

The statutory audit of OTP Bank is carried out by Deloitte Auditing and Consulting Ltd., in addition to which the following services were contracted:

- Assurance engagements other than audits or reviews of historical financial information (ISAE 3000)
- Non-audit engagements relating to compliance with statutory regulations
- Engagements to perform agreed-upon procedures regarding financial information (AUP according to ISRS 4400)

SUPPLEMENTARY DATA

ADJUSTMENTS OF THE CONSOLIDATED IFRS BALANCE SHEET LINES

In the adjusted balance sheets presented in the analytical section of the 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.

in HUF million	2017 HUF million	2018 HUF million
Gross customer loans (incl. accrued interest receivables related to loans)	7,726,631	8,751,955
(-) Accrued interest receivables related to DPD90+ loans	36,212	32,613
Gross customer loans (incl. accrued interest receivables related to loans) (adjusted)	7,690,419	8,719,342
Allowances for loan losses	-738,797	-685,364
(-) Allocated provision on accrued interest receivables related to DPD90+ loans	-36,212	-32,613
Allowances for loan losses (adjusted)	-702,585	-652,751

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) Aggregated adjusted after tax profit of OTP Core, Corporate Centre and foreign banks.

(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 3Q 2010 the result and balance sheet of OTP Factoring Bulgaria EAD was included.

(5) From 1Q 2015 to 4Q 2017 the performance of OTP Bank Russia does not contain the volumes and financial result of Touch Bank. From 1Q 2015 the statement of recognised income and balance sheet of LLC MFO "OTP Finance" was included in the Russian performance.

(6) Touch Bank was part of OTP Bank Russia from legal point of view, and it was operating under the same banking license, but as a separate digital banking business line. In order to provide transparent information Touch Bank was presented as a separate virtual entity from 1Q 2015 to 4Q 2017.

(7) Banco Popolare Croatia was consolidated into OBH's results from 2Q 2014. Splitska banka was consolidated into OBH's results from 2Q 2017.

(8) 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 OTP Factoring Ukraine LLC was also aggregated.

(9) From 2Q 2010 the statement of recognised income and balance sheet of OTP Faktoring SRL was included. Banca Millennium was consolidated into OBR's results from 1Q 2015.

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

(11) Including the financial performance of OTP Factoring Montenegro d.o.o. (merged into CKB Bank in 4Q 2018).

(12) 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. Including the financial performance of OTP Faktoring Slovensko s.r.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. Merkantil Car was merged into Merkantil Bank in 3Q 2018.

(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 and OTP Solution Fund (Ukraine), OTP Asset Management SAI S.A. (Romania), DSK Asset Management EAD (Bulgaria).

(16) OTP Buildings s.r.o. (Slovakia), Velvin Ventures Ltd. (Belize), 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

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 Financial 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 Recognised Income. The following adjustment items emerged in the period under review and the previous year: 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, and the initial NPV gain on the monetary policy interest rate swap (MIRS) deals.

  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 and losses on real estate transactions, Net insurance result (appearing in the accounting P&L structure from 3Q 2017), Gains and losses on derivative instruments, and Gains and losses on non-trading loans mandatorily at fair value through profit or loss lines, 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 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 were reclassified from the After tax dividends and net cash transfers line to the Net other non-interest result (adj.) without one-offs line.
- Other provisions are separated from other expenses and shown on a separate line in the adjusted profit or loss statement.
- 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.
- 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 recognized income, 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 financial transaction tax and Special tax on financial institutions line the in the adjusted P&L structure (due to the tax deductibility).

- 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.
- Performance indicators (such as cost/income ratio, net interest margin, risk cost to average gross loans as well as ROA and ROE ratios, etc.) 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, and the initial NPV gain on the monetary policy interest rate swap (MIRS) deals.
- 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)

	2018 HUF million	2017 HUF million
Net interest income	**624,723**	**553,755**
(-) Revaluation result of FX provisions	(44)	190
(+) Presentation of the revaluation result of intra-group swaps on the net interest income line realized at the Romanian and Slovakian operations	(116)	(103)
(-) Netting of interest revenues on DPD90+ loans with the related provision (booked on the Provision for loan losses line) at OTP Core and CKB	3,340	5,961
(-) Effect of acquisitions	795	847
(-) Initial NPV gain on the monetary policy interest rate swap (MIRS) deals	20,685	
Net interest income (adj.)	**599,832**	**546,654**
Net fees and commissions	**277,675**	**261,193**
(+) Financial Transaction Tax	(56,958)	(51,770)
(-) Effect of acquisitions	(14)	(5)
Net fees and commissions (adj.)	**220,731**	**209,428**
Foreign exchange result	**34,158**	**16,579**
(-) Revaluation result of FX positions hedging the revaluation of FX provisions	3,153	(4,350)
(-) Presentation of the revaluation result of intra-group swaps on the net interest income line realized at the Romanian and Slovakian operations	(2,598)	(814)
(-) Effect of acquisitions	34	122
Foreign exchange result (adj.)	**33,568**	**21,622**
Gain/loss on securities, net	**1,344**	**7,930**
Gain/loss on securities, net (adj.) with one-offs	**1,344**	**7,930**
(-) Revaluation result of the treasury share swap agreement (booked as Gain on securities, net (adj.) at OTP Core)	(1,117)	862
Gain/loss on securities, net (adj.) without one-offs	**2,461**	**7,068**
Gains and losses on real estate transactions	**1,890**	**2,093**
(+) Other non-interest income	**36,859**	**62,968**
(+) Gains and losses on derivative instruments	**6,458**	**5,291**
(+) Net insurance result	**673**	**410**
(+) Losses on loans measured mandatorily at fair value through other comprehensive income and on securities at amortized cost	**597**	
(-) Received cash transfers	575	584
(+) Received cash transfers within the framework of the subsidy programme targeting the expansion of POS network in Hungary	480	560
(-) Non-interest income from the release of pre-acquisition provisions	13,507	9,750
(+) Other other non-interest expenses	(6,537)	(9,666)
(+) Change in shareholders' equity of companies consolidated with equity method	246	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	2,482	712
(-) One-off impact of regulatory changes related to CHF consumer contracts in Croatia	(26)	(54)
(-) One-off impact of the CHF mortgage loan conversion programme and regulatory changes related to mortgage loans in Romania	(375)	(363)
(-) Impact of fines imposed by the Hungarian Competition Authority	0	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	(630)	(1,200)
Net other non-interest result (adj.) with one-offs	**25,134**	**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	**25,134**	**20,175**
Provision for impairment on loan and placement losses	**(39,287)**	**(40,848)**
(+) Non-interest income from the release of pre-acquisition provisions	13,507	9,750
(-) Revaluation result of FX provisions	(3,088)	4,144
(-) One-off impact of the CHF mortgage loan conversion programme and regulatory changes related to mortgage loans in Romania	(37)	1,777
(+) Netting of interest revenues on DPD90+ loans with the related provision (booked on the Provision for loan losses line) at OTP Core and CKB	3,340	5,961
(-) Effect of acquisitions	(33)	
Provision for impairment on loan and placement losses (adj.)	**(19,283)**	**(31,058)**
Dividend income	**5,736**	**4,152**
(+) Received cash transfers	575	584
(+) Paid cash transfers	(9,465)	(11,496)
(-) Sponsorships, subsidies and cash transfers to public benefit organisations	(9,449)	(11,495)
(-) Received cash transfers within the framework of the subsidy programme targeting the expansion of POS network in Hungary	480	560
(-) Dividend income of swap counterparty shares kept under the treasury share swap agreement	5,111	3,082
(-) Change in shareholders' equity of companies consolidated with equity method	246	413
After tax dividends and net cash transfers	**457**	**680**
Depreciation	**(57,437)**	**(49,493)**
(-) Goodwill impairment charges	(5,962)	(504)
(-) Effect of acquisitions	(3,266)	(2,507)
Depreciation (adj.)	**(48,210)**	**(46,482)**
Personnel expenses	**(251,041)**	**(213,886)**
(-) Effect of acquisitions	(1,594)	(287)
Personnel expenses (adj.)	**(249,447)**	**(213,599)**

	2018 HUF million	2017 HUF million
Income taxes	**(33,837)**	**(41,503)**
(-) Corporate tax impact of goodwill/investment impairment charges	1,233	(5,561)
(-) Corporate tax impact of the special tax on financial institutions	1,562	1,561
(+) Tax deductible transfers (offset against corporate taxes)	(2,057)	(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	573	(2,298)
(-) Corporate tax impact of the initial NPV gain on the monetary policy interest rate swap (MIRS) deals	(1,862)	
Corporate income tax (adj.)	**(37,400)**	**(37,350)**
Other operating expense	**(25,387)**	**(51,230)**
(-) Other costs and expenses	(7,152)	(5,795)
(-) Other non-interest expenses	(16,002)	(21,162)
(-) Effect of acquisitions	1,606	(9,504)
(-) Revaluation result of FX provisions	(21)	16
(-) One-off impact of regulatory changes related to CHF consumer contracts in Croatia	26	54
(-) One-off impact of the CHF mortgage loan conversion programme and regulatory changes related to mortgage loans in Romania	411	(1,414)
(-) 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	630	1,200
Other provisions (adj.)	**(6,885)**	**(14,624)**
Other administrative expenses	**(264,804)**	**(236,072)**
(+) Other costs and expenses	(7,152)	(5,795)
(+) Other non-interest expenses	(16,002)	(21,162)
(-) Paid cash transfers	(9,465)	(11,496)
(+) Film subsidies and cash transfers to public benefit organisations	(9,449)	(11,495)
(-) Other other non-interest expenses	(6,537)	(9,666)
(-) Special tax on financial institutions (recognised as other administrative expenses)	(16,848)	(16,794)
(-) Tax deductible transfers (offset against corporate taxes)	(2,057)	(2,162)
(-) Financial Transaction Tax	(56,958)	(51,770)
(-) Effect of acquisitions	(4,945)	(931)
Other non-interest expenses (adj.)	**(199,161)**	**(181,706)**

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

	2018 HUF million	2017 HUF million	Change %
Loans	141,536	120,960	17
Placements with other banks	69,947	47,776	46
Amounts due from banks and balances with the National Banks	280	1,403	(80)
Securities at fair value through other comprehensive income	31,628	30,100	5
Securities at amortized cost	47,342	44,737	6
Interest income	*290,733*	*244,976*	*19*
Interest expense due to banks and on deposits from the National Banks	(53,993)	(56,893)	(5)
Deposits from customers	(26,634)	(9,244)	188
Liabilities from issued securities	(157)	(151)	4
Subordinated bonds and loans	(2,994)	(3,033)	(1)
Interest expense	*(83,778)*	*(69,321)*	*21*
Net interest income	**206,955**	**175,655**	**18**
Provisions for loans	(6,927)	(7,807)	(11)
Provisions on placements	(895)	32	
Provision for impairment on loan and placement losses	(7,822)	(7,775)	1
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES	199,133	167,880	19
Income from fees and commissions	212,556	206,759	3
Expense from fees and commissions	(34,339)	(30,355)	13
NET PROFIT FROM FEES AND COMMISSIONS	178,217	176,404	1
Foreign exchange gains and losses	9,510	4,555	109
Losses / Gains on securities, net	1,960	7,946	(74)
Losses on loans measured mandatorily at fair value through other comprehensive income and on securities at amortized cost	625	0	
Gains on real estate transactions	219	222	0
Dividend income	68,481	82,638	(17)
Gains and losses on derivative instruments	3,706	2,030	83
Other operating income	4,960	9,768	(49)
Other operating expense	(5,023)	71,359	(107)
NET OPERATING GAIN	84,438	178,519	(53)
Personnel expenses	(104,819)	(90,444)	16
Depreciation	(21,232)	(20,528)	4
Other administrative expenses	(151,104)	(141,455)	7
OTHER ADMINISTRATIVE EXPENSES	(277,155)	(252,427)	10
PROFIT BEFORE INCOME TAX	**184,633**	**270,417**	**(32)**
Income tax expense	(11,191)	(18,867)	(41)
NET PROFIT FOR THE PERIOD	**173,442**	**251,550**	**(31)**
From this, attributable to non-controlling interest	0	0	
FROM THIS, ATTRIBUTABLE TO OWNERS OF THE COMPANY	**173,442**	**251,550**	**(31)**

[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]

	2018 HUF million	2017 HUF million	Change %
Cash, amounts due from Banks and balances with the National Banks	360,855	399,124	(10)
Placements with other banks, net of allowance for placement losses	1,074,840	978,098	10
Financial assets at fair value through profit or loss	155,042	303,927	(49)
Securities at fair value through other comprehensive income	1,451,905	1,735,902	(16)
Loans at amortized cost and fair value	2,618,863	2,145,046	22
Associates and other investments	1,177,573	967,414	22
Securities at amortized costs	1,431,789	1,043,779	37
Tangible and intangible assets	112,658	100,537	12
Other assets	122,663	98,055	25
TOTAL ASSETS	**8,506,188**	**7,771,882**	**9**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	738,036	694,533	11
Deposits from customers	5,741,498	5,192,869	11
Liabilities from issued securities	46,694	60,304	(23)
Financial liabilities at fair value through profit or loss	32,231	-	-
Derivative financial liabilities designated as held for trading	82,838	79,545	4
Other liabilities	243,495	210,539	16
Subordinated bonds and loans	110,454	108,835	1
TOTAL LIABILITIES	**6,995,246**	**6,346,625**	**10**
Share capital	28,000	28,000	0
Retained earnings and other reserves without earnings	1,311,464	1,155,247	14
Profit or loss for the financial year according to the balance sheet	173,442	251,550	(31)
Treasury shares	(1,964)	(9,540)	(79)
TOTAL SHAREHOLDERS' EQUITY	**1,510,942**	**1,425,257**	**6**
TOTAL LIABILTITIES AND SHAREHOLDERS' EQUITY	**8,506,188**	**7,771,882**	**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]

	2018 HUF million	2017 HUF million	Change %
Loans	576,053	521,121	11
Placements with other banks	72,401	42,686	70
Amounts due from banks and balances with the National Banks	421	1,444	(71)
Securities at fair value through other comprehensive income	37,912	34,442	10
Securities at amortized cost	59,899	56,343	6
Other interest income	11,272	10,479	8
Interest income	*757,958*	*666,515*	*14*
Interest expense due to banks and on deposits from the National Banks	(47,979)	(46,475)	4
Deposits from customers	(69,387)	(50,995)	36
Liabilities from issued securities	(6,343)	(5,727)	11
Subordinated bonds and loans	(2,169)	(2,259)	(4)
Other	(7,357)	(7,303)	1
Interest expense	*(133,235)*	*(112,759)*	*18*
Net interest income	**624,723**	**553,756**	**13**
Provisions for loans	(39,143)	(40,620)	(4)
Provisions on placements	(144)	(228)	(37)
Provision for impairment on loan and placement losses	(39,287)	(40,848)	(4)
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES	585,436	512,908	14
Income from fees and commissions	338,081	315,606	7
Expense from fees and commissions	(60,405)	(54,413)	11
NET PROFIT FROM FEES AND COMMISSIONS	277,676	261,193	6
Foreign exchange gains and losses	34,157	16,579	106
Losses / Gains on securities, net	1,345	7,930	(83)
Losses on loans measured mandatorily at fair value through other comprehensive income and on securities at amortized cost	597	0	
Gains on real estate transactions	1,890	2,093	(10)
Dividend income	5,736	4,152	38
Net insurance result	673	409	64
Gains and losses on derivative instruments	6,458	5,291	22
Other operating income	36,859	62,968	(41)
Other operating expense	(25,387)	(51,230)	(50)
NET OPERATING GAIN	62,328	48,191	29
Personnel expenses	(251,041)	(213,886)	17
Depreciation	(57,437)	(49,492)	16
Other administrative expenses	(264,803)	(236,072)	12
OTHER ADMINISTRATIVE EXPENSES	(573,281)	(499,450)	15
PROFIT BEFORE INCOME TAX	**352,159**	**322,842**	**9**
Income tax expense	(33,837)	(41,503)	(18)
NET PROFIT FOR THE PERIOD	**318,322**	**281,339**	**13**
From this, attributable to non-controlling interest	89	197	(55)
FROM THIS, ATTRIBUTABLE TO OWNERS OF THE COMPANY	**318,233**	**281,142**	**13**

[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]

	2018 HUF million	2017 HUF million	Change %
Cash, amounts due from Banks and balances with the National Banks	1,547,272	1,198,045	29
Placements with other banks, net of allowance for placement losses	420,606	462,180	(9)
Financial assets at fair value through profit or loss	181,356	344,417	(47)
Securities at fair value through other comprehensive income	1,883,849	2,174,718	(13)
Loans at amortized cost and fair value	8,066,593	6,987,834	15
Associates and other investments	17,591	12,269	43
Securities at amortized costs	1,740,520	1,310,331	33
Tangible and intangible assets	420,484	413,390	2
Other assets	312,017	287,044	9
TOTAL ASSETS	**14,590,288**	**13,190,228**	**11**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	360,475	472,068	(17)
Deposits from customers	11,285,085	10,233,471	10
Liabilities from issued securities	417,966	250,320	67
Financial liabilities at fair value through profit or loss	32,231	-	-
Derivative financial liabilities designated as held for trading	73,316	69,874	5
Other liabilities	513,129	448,412	14
Subordinated bonds and loans	81,429	76,028	7
TOTAL LIABILITIES	**12,763,631**	**11,550,173**	**11**
Share capital	28,000	28,000	0
Retained earnings and other reserves without earnings	1,545,971	1,390,737	11
Profit or loss for the financial year according to the balance sheet	318,233	281,142	13
Treasury shares	(67,999)	(63,289)	7
Non-controlling interest	2,452	3,465	(29)
TOTAL SHAREHOLDERS' EQUITY	**1,826,657**	**1,640,055**	**11**
TOTAL LIABILTITIES AND SHAREHOLDERS' EQUITY	**14,590,288**	**13,190,228**	**11**

[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 2018

IFRS (SEPARATE)

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

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

Budapest, 8 March 2019

OTP BANK Nyrt.

Dr. Sándor Csányi
Chairman and Chief Executive Officer

elnök-vezérigazgató

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

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

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

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

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

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

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

	Note	2018	2017
OPERATING ACTIVITIES			
Profit before income tax		**184,633**	**270,417**
Net accrued interest		1,586	(4,682)
Depreciation and amortization	*11.*	21,232	20,529
Loss allowance on loan and placement losses	*5.,8.,24*	7,822	7,775
Release of loss allowance on securities at fair value through other comprehensive income		(553)	-
Loss allowance / (Release loss allowance) on investments in subsidiaries	*9.*	4,436	(65,200)
Loss allowance on securities at amortised cost		191	-
Release of loss allowance on other assets	*13.*	(10,078)	(25,664)
(Release of provision) / Provision on off-balance sheet commitments and contingent liabilities	*19.*	(4,343)	4,462
Share-based payment	*31.*	3,797	3,598
Unrealised gains on fair value adjustment of securities measured at fair value through profit or loss and held for trading		(13,528)	(18,335)
Unrealised losses on fair value adjustment of derivative financial instruments		16,903	12,458
Net changes in assets and liabilities in operating activities			
Changes in held for trading derivative and other financial assets	*6.*	51,078	(128,454)
Changes in securities measured at fair value through profit or loss	*6.*	(20,658)	-
Changes in held for trading derivatives and other financial liabilities	*6.*	6,503	(4,700)
Net increase in loans	*8.*	(487,561)	(251,942)
(Increase) / Decrease in other assets, excluding advances for investments and before provisions for losses	*13.*	(11,468)	44,179
Net increase in deposits from customers	*15.*	548,626	445,079
Increase / (Decrease) in other liabilities	*19.*	46,090	(33,068)
Net increase in the compulsory reserve established by the National Bank of Hungary	*4.*	(6,227)	(2,690)
Dividend income		(63,198)	(82,638)
Net cash provided by operating activities		**275,283**	**191,124**
INVESTING ACTIVITIES			
Net decrease in placements with other banks before allowance for placement losses	*5.*	(95,933)	(61,583)
Purchase securities at fair value through other comprehensive income	*7.*	(848,937)	(560,772)
Proceeds from sale of securities at fair value through other comprehensive income	*7.*	1,194,838	322,019
Change in derivative financial instruments designated as hedge accounting		1,180	-
Increase in investments in subsidiaries	*9.*	(214,595)	(233,345)
Dividend income		65,570	80,017
Increase in securities at amortised cost	*10.*	(455,497)	(273,845)
Redemption of securities at amortised cost	*10.*	70,422	86,740
Additions to property, equipment and intangible assets	*11.*	(36,836)	(36,316)
Disposal of property, equipment and intangible assets	*11.*	3,442	7,795
Net decrease / (increase) in investment properties	*12.*	41	(150)
Net decrease in advances for investments included in other assets	*13.*	37	10
Net cash used in investing activities		**(316,268)**	**(669,430)**

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

	Note	2018	2017
FINANCING ACTIVITIES			
Net increase in amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	*14.*	57,729	51,130
Financial liabilities designated as fair value through profit or loss	*17.*	12,177	-
Cash received from issuance of securities	*16.*	8,537	36,225
Cash used for redemption of issued securities	*16.*	(22,144)	(80,914)
Increase / (decrease) in subordinated bonds and loans	*20.*	1,620	(1,704)
Payments to ICES holders	*22.*	(1,256)	(1,519)
Increase in Treasury shares	*23.*	(14,238)	(13,510)
Decrease in Treasury shares	*23.*	15,383	9,377
Dividend paid	*22.*	(61,319)	(53,191)
Net cash used in financing activities		**(3,511)**	**(54,106)**
Net decrease in cash and cash equivalents		**(44,496)**	**(532,412)**
Cash and cash equivalents at the beginning of the period		347,854	880,266
Cash and cash equivalents at the end of the period[15]		**303,358**	**347,854**

[15] See Note 4

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

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS

1.1. General information

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

The Bank’s registered office address is 16, Nádor Street, Budapest 1051. Internet homepage: 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: Attila dr. Hruby, registration number: 007118.

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

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

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

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

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

	2018	**2017**
Domestic and foreign private and institutional investors	98%	98%
Employees	1%	1%
Treasury shares	1%	1%
Total	**100%**	**100%**

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

Number of the employees of the Bank:

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

1.2. Basis of accounting

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

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

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

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

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

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

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

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

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

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

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

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

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

Implementation of IFRS 16

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

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

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

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

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 16 [continued]

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

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

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

In the cash flow statement cash flows from the principal of the lease liability are classified as cash flows from financing activities, while lease payments for short-term leases, lease payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability are classified as cash-flows from operating activities. The interest payments regarding the lease liability are classified according to the IAS 7 standard.

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

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

Transition to application of IFRS 16

The Bank will use the modified retrospective approach.

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

The Bank applies the following practical expedients available:

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

Impact of IFRS 16 on the financial statements

IFRS 16 Project

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

Stage I – Analysis of contracts, data collection

During the analysis of all executed agreements the classification was made, whether it is a purchase of services, or a lease. The analysis covered all the relevant agreements – so the Bank has not applied the so called “grandfathering exemption” according to IFRS16.C3 - despite their current classification and the assessment resulted in no different identification of the leases. Furthermore to calculate the value of the right-of-use assets and lease liabilities the collection of all the relevant information was performed.

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

- Real estate
- Company car

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]

Impact of IFRS 16 on the financial statements [continued]

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

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

Stage II – Evaluation of contracts, Calculations

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

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

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

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

Description of adjustments

a) Recognition of lease liabilities

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

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

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

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

b) Recognition of right-of-use assets

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

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

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

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]

Description of adjustments [continued]

c) Application of estimates

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

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

Impact on the statement of financial position

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

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

Estimated financial impact

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

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

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

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

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

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 3 "Business Combinations"** - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period).
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - Definition of Material (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IAS 19 "Employee Benefits"** - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015 -2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).

The Bank anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of presentation

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

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

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

2.2. Foreign currency translation

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

2.3. Consolidated financial statements

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

2.4. Investments in subsidiaries, associated companies and other investments

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

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

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

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

OTP Bank calculates the fair value based on discounted cash-flow model. The 3 year period explicit cash-flow model serves as a basis for the impairment test by which the Bank defines the impairment need on investment in subsidiaries based on the strategic factors and financial data of its cash-generating units.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.5. Securities at amortised cost

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

Such securities comprise mainly securities issued by the Hungarian Government, mortgage bonds and Hungarian Government discounted Treasury Bills.

2.6. 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 holds held for trading securities within the business model to obtain short-term gains. Consequently realised and unrealised gains and losses are recognized in the net operating income. The Bank applies FIFO[1] inventory valuation method for securities held for trading. Such securities consist of discounted and interest bearing Treasury bills, Hungarian Government bonds, mortgage bonds, shares in non-financial commercial companies, shares in investment funds, shares in venture capital funds and shares in financial institutions.

2.6.2. Derivative financial instruments

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

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

Certain derivative transactions, while providing effective economic hedges under risk management positions of the Bank, do not qualify for hedge accounting under the specific rules of IFRS 9 and are therefore treated as derivatives held for trading with fair value gains and losses charged directly to the separate statement of profit or loss.

Foreign currency contracts

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

[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 a complex agreement concerning the swap of certain financial instruments, which usually consists of a spot and one or more forward contracts.

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

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

Cross-currency interest rate swaps

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

Equity and commodity swaps

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

Forward rate agreements (FRA)

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

The Bank limits its exposure to market risk by entering into generally matching or offsetting positions and by establishing and monitoring limits on unmatched positions. Credit risk is managed through approval procedures that establish specific limits for individual 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 hedging instruments fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the separate statement of profit or loss along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. Changes in the fair value of the hedging instrument in fair value hedges is charged directly to the separate statement of profit or loss. The conditions of hedge accounting applied by the Bank are the following: formally designated as hedging relationship, proper hedge documentation is prepared, effectiveness test is performed and based on it the hedge is qualified as effective.

The Bank implemented hedge accounting rules prescribed by IFRS 9 in 2018.

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

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

2.8. Offsetting

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

2.9. Embedded derivatives

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

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

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

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

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

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

The Bank has elected to present in the Statement of Other Comprehensive Income changes of fair value of those equity instruments which are neither held for trading nor recognised under IFRS 3.

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

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

In some cases the Bank made an irrevocable election at initial recognition for certain equity instruments to present subsequent changes in fair value of these securities in other comprehensive income instead of in profit or loss.

[1] First In First Out

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

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

Loans and placements with other banks are accounted at amortised cost, stated at the principal amounts outstanding including accrued interest, net of allowance for loan or placement losses, respectively. Transaction fees and charges should adjust the carrying amount at initial recognition and be included in effective interest calculation. Loans and placements with other banks are derecognised when the contractual rights to the cash-flows expire or they are transferred. When a financial asset is derecognised the difference of the carrying amount and the consideration received is recognised in the profit or loss. When the contractual cash flows of a financial asset are modified and the modification does not result in the derecognition of the financial asset the Bank recalculate the gross carrying amount of the financial asset by discounting the expected future cash flows with the original effective interest rate of the asset. The difference between the carrying amount and the present value of the expected cash flows is recognised as a modification gain or loss in the profit or loss. Interest and amortised cost are accounted using effective interest rate method. When a borrower is unable to meet payments as they fall due or, in the opinion of the Management, there is an indication that a borrower may be unable to meet payments as they fall due, all unpaid penalty interest becomes impaired.

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

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

Allowance for losses on loans and placements with other banks represent management assessment for potential losses in relation to these activities.

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.11. Loans, placements with other banks and loss allowance for loan and placement losses [continued]

At subsequent measurement the Bank recognises through "Loss allowance on loan and placement losses" in the Statement of Profit or Loss impairment gain or loss as an amount of expected credit losses or reversal that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised in accordance with IFRS 9. If, in a subsequent period, the amount of the loss allowance decreases and the decrease can be related objectively to an event occurring after the loss allowance was recognised (such as an improvement in the debtor's credit rating), the previously recognised loss allowance shall be reversed by adjusting an allowance account. As a result of the reversal the carrying amount shall not exceed the amortised cost, which would be at the date of reversal, if no loss allowance had been recognised previously. If a financial asset, which previously classified in the first stage, classified subsequently in the second or third stage than loss allowance is adjusted to lifetime expected credit loss. If a financial asset, which previously classified in the second or third stages, classified subsequently in the first stage than loss allowance is adjusted to level of 12 month expected credit.

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

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

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

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

2.12. Sale and repurchase agreements, security lending

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

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

2.13. Property, equipment and intangible assets

Property, equipment and intangible assets are stated at cost, less accumulated depreciation and amortization and impairment, if any. The depreciable amount (book value less residual value) of the non-current assets must be allocated over their useful lives. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets based on the following annual percentages:

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.13. Property, equipment and intangible assets [continued]

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

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

2.14. Investment properties

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

2.15. Financial liabilities

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

2.16. Leases

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

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

2.17. Treasury shares

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

2.18. Interest income and interest expense

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

The time-proportional interest income of derivative financial instruments calculated not using the effective interest method and the positive fair value adjustment of interest rate swaps are also included in interest income.

The Bank recognizes interest income when it considers that the interest associated with the transaction will flow to the Bank and the amount of the revenue can be reasonably measured. All interest income and expense arising from loans, placements with other banks, FVOCI securities, securities at amortised cost and amounts due to banks, deposits from customers, liabilities from issued securities, subordinated bond and loans are presented under these lines of financial statement.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.19. Fees and Commissions

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

2.20. Dividend income

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

2.21. Income tax

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

2.22. Off-balance sheet commitments and contingent liabilities

In the ordinary course of its business, the Bank has entered into off-balance sheet commitments such as guarantees, commitments to extend credit, letters of credit and transactions with financial instruments. The provision on off-balance sheet commitments and contingent liabilities is maintained at a level adequate to absorb probable future losses. Management determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

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

2.23. Share-based payment and employee benefit

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

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

2.24. Separate statement of cash-flows

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

2.25. Segment reporting

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.26. Comparative figures

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

IFRS 9

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

IAS 39	IFRS 9	Opening balance according to IAS 39 as at 1 January 2018	Reclassification	Remeasurement due to reclassification	Remeasurement due to impairment				Opening balance according to IFRS 9 as at 1 January 2018
					Stage 1	Stage 2	Stage 3	POCI	
Placements with other banks	**Placements with other banks**	**978,098**	**-**	**-**	**(1,257)**	**-**	**-**	**-**	**976,841**
Loans measured at amortised cost	Loans measured at amortised cost	2,145,046	(19,650)	-	(1,350)	(1,902)	(5,679)	2,021	2,118,486
	Loans mandatorily measured at fair value	-	19,650	1,408	-	-	-	-	21,058
Loans total	**Loans total**	**2,145,046**	**-**	**1,408**	**(1,350)**	**(1,902)**	**(5,679)**	**2,021**	**2,139,544**
Held for trading securities	Held for trading securities	206,715	-	-	-	-	-	-	206,715
Available for sale securities	Securities mandatorily measured at fair value through profit or loss	-	20,005	-	-	-	-	-	20,005
	Securities at fair value through other comprehensive income	1,735,902	(20,005)	-	(2,380)	-	-	-	1,713,517
Held to maturity securities	Securities at amortised cost	1,043,779	-	-	(1,477)	-	-	-	1,042,302
Securities total	**Securities total**	**2,986,396**	**-**	**-**	**(3,857)**	**-**	**-**	**-**	**2,982,539**
Amounts due to banks	**Amounts due to banks**	694,533	(20,011)	-	-	-	-	-	674,522
	Financial liabilities designated as fair value through profit or loss	-	20,011	1,465	-	-	-	-	21,476
Total	**Total**	**5,415,007**	**-**	**(57)**	**(6,464)**	**(1,902)**	**(5,679)**	**2,021**	**5,402,926**
Provision for loan commitments and financial guarantees	*Provision for loan commitments and financial guarantees*	*10,007*	-	-	*(3,911)*	*(240)*	*120*	-	*5,976*

IFRS 15

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

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

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

3.1. Loss allowance on financial instruments

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

3.2. Valuation of instruments without direct quotations

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

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

3.3. Provisions

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

Other provision is recognized and measured based on IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Bank is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Bank assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for. (See Note 19.)

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

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

3.4. Business models

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

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

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

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

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

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

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

a) deposits and loans,
b) debt instruments,
c) repo transactions.

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

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

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

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:

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

Interest conditions of placements with other banks (%):

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

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

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

[1] CCIRS: Cross Currency Interest Rate Swap
[2] incl.: FX, equity, commodity and index futures; FX forward; commodity and equity swap; FRA; FX option

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:

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

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

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

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

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

	2018	2017
FVOCI securities / Available for sale securities denominated in HUF	81%	82%
FVOCI securities / Available for sale securities denominated in foreign currency	19%	18%
FVOCI securities / Available for sale securities total	**100%**	**100%**
Interest rates on FVOCI securities / Available for sale securities denominated in HUF	0.5%-11%	0.63%-11%
Interest rates on FVOCI securities / Available for sale securities denominated in foreign currency	(0.14%)-7.25%	(0.15%)-7.25%
Average interest on FVOCI securities / Available for sale securities	2.26%	1.92%

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

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

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

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

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

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

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

NOTE 8: LOANS (in HUF mn)

Loans measured at fair value through profit or loss

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

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

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

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

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

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

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

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

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

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

NOTE 8: LOANS (in HUF mn) [continued]

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

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

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

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

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

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

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

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

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

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

[1] incl. housing loans

NOTE 9: INVESTMENTS IN SUBSIDIARIES, ASSOCIATES, JOINT VENTURES 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:

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

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

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

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

The Bank decided that the recoverable amount is determined based on fair value less cost of disposal. The Bank prepared impairment tests of the subsidiaries based on two different net present value calculation methods that show the same result; however they represent different economical logics. On one hand is the discount cash-flow method (DCF) that calculates the value of the subsidiaries by discounting their expected cash-flow; on the other hand the economic value added (EVA) method estimates the value of the subsidiaries from the initial invested capital and the present value of the economic profit that the companies are expected to generate in the future. Applying the EVA method was more practically than DCF method because it gives a more realistic picture about how the explicit period and the residual value can contribute to the value of the company.
The Bank, in its strategic plan, has taken into consideration the effects of the present global economic situation, the cautious recovery of economic situation and outlook, the associated risks and their possible effect on the financial sector as well as the current and expected availability of wholesale funding.

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

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

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

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

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

Significant associates and joint ventures

The main figures of the Bank's indirectly owned associates and joint ventures at cost[1]:

As at 31 December 2018

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

As at 31 December 2017

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

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

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

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

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

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

DSK Bank EAD, the Bulgarian subsidiary of OTP Bank signed an acquisition agreement on purchasing 99.74% shareholding of Societe Generale Expressbank AD (**„SGEB"**), the Bulgarian subsidiary of Société Générale Group, and other local subsidiaries held by SGEB. With a market share of approximately 6.4% Societe Generale Expressbank is the 7th largest bank on the Bulgarian banking market and as a universal bank it has been active in the retail and corporate segment as well.

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

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

Significant associates and joint ventures

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

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

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

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

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

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

The distribution of the securities at amortised cost by currency (%):

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

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

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

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

As at 31 December 2018

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

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**

The Bank has no intangible assets with indefinite useful life.

NOTE 12: INVESTMENT PROPERTIES (in HUF mn)

For the year ended 31 December 2018 and 2017

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

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

Incomes and expenses	2018	2017
Rental income	1	1
Depreciation	43	43

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

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

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

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

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

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

[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.

[2] Provision for impairment on other assets mainly consists of provision for trade receivables and inventories.

[3] See details in Note 27.

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

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

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

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

NOTE 15: DEPOSITS FROM CUSTOMERS (in HUF mn)

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

[1] It contains the loans lent among the frame of Funding for Growth Scheme.

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

Interest rates on deposits from customers are as follows (%):

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

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

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

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

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

Interest rates on liabilities from issued securities are as follows (%):

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

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

Issued securities denominated in foreign currency as at **31 December 2018** (in HUF mn):

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

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

On 19 July 2018 the Bank initiated term note program in the value of HUF 200 billion with the intention of issuing registered dematerialized bonds in public. The NBH approved on 13 August 2018 the prospectus of Term Note Program and the disclosure as at 16 August 2018. The prospectus is valid for 12 months following the disclosure.

The Issuer can initiate to introduce the bonds issued under the program to the Hungarian, Slovakian, Romanian, Bulgarian and Croatian Stock Exchange without any obligations.

Hedge accounting

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

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

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

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

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

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

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

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

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

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

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

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

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

	2018	2017
IRS	29,776	30,871
Foreign currency swaps	26,654	14,326
CCIRS and mark-to-market CCIRS	17,164	22,759
Other derivative contracts[1]	9,244	11,589
Total	**82,838**	**79,545**

[1] incl.: FX, equity, commodity and index futures; FX forward; commodity and equity swap; FRA; FX option

NOTE 19: OTHER LIABILITIES[1] (in HUF mn)

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

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

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

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

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

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

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

[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.

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

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

Interest rates on subordinated bonds and loans are as follows (%):

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

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

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

NOTE 21: SHARE CAPITAL (in HUF mn)

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

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

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

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

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

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

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

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

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

Share capital

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

Share-based payment reserve

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

Retained earnings

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

Put option reserve

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

Other comprehensive income

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

General reserve

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

Tied-up reserve

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

NOTE 22: 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 2018:

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

NOTE 22: 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 2018:

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

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

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

NOTE 23: TREASURY SHARES (in HUF mn)

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

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

Change in number of shares:

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

Change in carrying value:

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

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

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

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

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

Income from fees and commissions:

	2018	2017
Fees and commissions related to lending	**4,768**	**8,309**
Deposit and account maintenance fees and commissions	94,300	84,667
Fees and commission related to the issued bank cards	65,447	60,066
Fees and commissions related to security account management services	22,713	28,235
Fees and commissions paid by OTP Mortgage Bank Ltd.	12,791	14,254
Net insurance fee income	8,599	6,966
Other	3,938	4,262
Fees and commissions from contracts with customers	**207,788**	**198,450**
Total Income from fees and commissions:	**212,556**	**206,759**

Contract balances

	2018	2017
Receivables, which are included in 'other assets'	6,178	3,545
Loss allowance	(49)	(264)
Liabilities which are included in 'other liabilities'	(103)	(76)

Performance obligations and revenue recognition policies:

Fee type	Nature and timing of satisfaction of performance obligations, and the significant payment terms	Revenue recognition under IFRS 15
Deposit and account maintenance fees and commissions	The Bank provides a number of account management services for both retail and corporate customers in which they charge a fee. Fees related to these services can be typically account transaction fees (money transfer fees, direct debit fees, money standing order fees, etc.), internet banking fees (e.g. OTP Direct fee), account control fees (e.g. sms fee), or other fees for occasional services (account statement fees, other administration fees, etc.). Fees for ongoing account management services are charged to the customer's account on a monthly basis. The fees are commonly fix amounts that can be vary per account package and customer category. In the case of the transaction based fees where the services include money transfer the fee is charged when the transaction takes place. The rate of the fee is typically determined in a certain % of the transaction amount. In case of other transaction-based fees (e.g. SMS fee), the fee is settled monthly. In case of occasional services the Bank basically charges the fees when the services are used by the customer. The fees can be fixed fees or they can be set in %. The rates are reviewed by the Bank regularly.	Fees for ongoing account management services are charged on a monthly basis during the period when they are provided. Transaction-based fees are charged when the transaction takes places or charged monthly at the end of the month.

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

Performance obligations and revenue recognition policies: [continued]

Fee type	Nature and timing of satisfaction of performance obligations, and the significant payment terms	Revenue recognition under IFRS 15
Fees and commission related to the issued bank cards	The Bank provides a variety of bank cards to its customers, for which different fees are charged. The fees are basically charged in connection with the issuance of cards and the related card transactions. The annual fees of the cards are charged in advance in a fixed amount. The amount of the annual card fee depends on the type of card. In case of transaction-based fees (e.g. cash withdrawal/payment fee, merchant fee, interchange fee, etc.), the settlement of the fees will take place immediately after the transaction or on a monthly basis. The fee is typically determined in % of the transaction with a fixed minimum amount. For all other cases where the Bank provides a continuous service to the customers (e.g. card closing fee), the fees are charged monthly. The fee is calculated in a fix amount. The rates are reviewed by the Bank regularly.	Fees for ongoing services are charged on a monthly basis during the period when they are provided. Transaction-based fees are charged when the transaction takes places or charged monthly at the end of the month.
Fees and commissions related to security account management services	The Bank provides its clients with security account management services. Fees will be charged for account management and transactions on accounts. Account management fees are typically charged quarterly or annually. The amount is determined in%, based on the stocks of securities managed by the clients on the account in a given period. Fees for transactions on the securities account are charged immediately after the transaction. They are determined in%, based on the transaction amount. Fees for complex services provided to clients (e.g. portfolio management or custody) are typically charged monthly or annually. The fees are fixed monthly amounts and in some cases a bonus fee are charged.	Fees for ongoing services are charged quarterly or annually during the period when they are provided. The fees are accrued monthly. Transaction-based fees are charged when the transaction takes places.
Fees and commissions paid by OTP Mortgage Bank Ltd.	The Bank provides a number of services to its subsidiaries, in connection with fees are charged. These fees typically include services related to various warranties and guarantees, credit account management, agency activities, and marketing activities. The credit account management fee granted to OTP Mortgage Bank is settled on a monthly basis. It has a fixed part that is based on the number of the managed credit accounts, and a variable one determined by the profit split method. The fees for the guarantee services provided by the Bank are charged monthly. The fee is determined by% and based on the stock being guaranteed. Fees for agent services are charged monthly. The rate is %, based on the products sold during the period.	Fees for ongoing services are charged on a monthly basis during the period when they are provided. Transaction-based fees are charged when the transaction takes places.

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

Performance obligations and revenue recognition policies: [continued]

Fee type	Nature and timing of satisfaction of performance obligations, and the significant payment terms	Revenue recognition under IFRS 15
Net insurance fee income	Due to the fact that the Bank does not provide insurance services to its clients, only acts as an agent, the fee income charged to the customers and fees payable to the insurance company are presented net in the fee income. In addition, agency fee charged for the sale of insurance contracts is also recorded in this line. The fee is charged on a monthly basis and determined in %.	Fees for ongoing services are charged on a monthly basis during the period when they are provided.
Other	Fees that are not significant in the Banks total income are included in Other fees category. Such fees are safe lease, special procedure fee, account rent fee, adlak service fee, fee of a copy of document, etc. Other fees may include charges for continuous services or for ad hoc administration services. Continuous fees are charged monthly (e.g., safe lease fees) at the beginning of the period, typically at a fixed rate. Fees for ad hoc services are charged immediately after the service obligation had been met, typically also in a fixed amount.	Fees for ongoing services are charged on a monthly basis during the period when they are provided. Fees for ad hoc services are charged when the transaction takes places.

Expenses from fees and commissions:	2018	2017
Other fees and commissions related to issued bank cards	25,024	19,070
Insurance fees	3,958	3,058
Fees and commissions related to lending	1,736	4,446
Fees and commissions related to security trading	1,122	914
Fees and commissions relating to deposits	1,087	935
Trust activites related to securities	574	409
Postal fees	246	250
Money market transaction fees and commissions	122	351
Other	470	922
Total Expenses from fees and commissions	**34,339**	**30,355**
Net profit from fees and commissions	**178,217**	**176,404**

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

Other operating income:	2018	2017
Gains on transactions related to property activities	219	222
Gains on sale of receivables	290	5,190
Income from lease of tangible assets	599	619
Other	4,071	3,959
Total	**5,179**	**9,990**

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

Net other operating expenses:	**2018**	**2017**
Release of loss allowance on other assets	10,078	25,664
Release of provision / (Provision) for off-balance sheet commitments and contingent liabilities	4,343	(4,462)
Loss allowance on securities at amortised cost	(191)	-
Fine imposed by Competition Authority	(1,441)	(18)
Losses on other assets	(2,949)	(2,408)
Financial support for sport association and organization of public utility	(3,979)	(7,331)
Non-repayable assets contributed	(4,397)	(1,156)
(Provision for impairment) /Release of provision on investments in subsidiaries	(4,436)	65,200
Other	(2,051)	(4,130)
Total (expense) / gain	**(5,023)**	**71,359**

Other administrative expenses:	**2018**	**2017**
Personnel expenses:		
Wages	76,164	64,115
Taxes related to personnel expenses	17,254	16,407
Other personnel expenses	11,401	9,922
Subtotal	**104,819**	**90,444**
Depreciation and amortization:	**21,232**	**20,486**
Other administrative expenses:		
Taxes, other than income tax[1]	72,084	67,055
Services	31,158	28,603
Administration expenses, including rental fees	27,286	25,195
Professional fees	12,313	12,747
Advertising	8,263	7,855
Subtotal	**151,104**	**141,455**
Total	**277,155**	**252,385**

NOTE 27: INCOME TAX (in HUF mn)

The Bank is presently liable for income tax at a rate of 9% of taxable income.

A breakdown of the income tax expense is:

	2018	**2017**
Current tax expense	1,670	878
Deferred tax expense	9,521	17,989
Total	**11,191**	**18,867**

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

	2018	**2017**
Balance as at 1 January	**7,991**	**27,603**
Deferred tax expense in recognised income	(9,521)	(17,989)
Deferred tax income / (expense) in other comprehensive income	2,771	(1,623)
Closing balance	**1,241**	**7,991**

[1] Special tax of financial institutions was paid by OTP Bank in the amount of HUF 5.4 and 11 billion for the year 2018 and 2017, recognized as an expense thus decreased the corporate tax base. In the year ended 31 December 2018 financial transaction duty was paid by the Bank in the amount of HUF 57 billion.

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

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

	2018	2017
Unused tax allowance	5,330	11,452
Refundable tax in accordance with Acts on Customer Loans	245	2,294
Goodwill	-	1,268
Amounts unenforceable by tax law	13	120
Tax accrual caused by unused negative taxable income	-	873
Fair value adjustment of derivative financial instruments	-	188
Deferred tax assets	**5,588**	**16,195**
Fair value adjustment of held for trading and FVOCI securities	(4,034)	(6,817)
Difference in transition to IFRS	-	(896)
Difference in depreciation and amortization	(313)	(315)
Effect of using effective interest rate method	-	(176)
Deferred tax liabilities	**(4,347)**	**(8,204)**
Net deferred tax asset	**1,241**	**7,991**

A reconciliation of the income tax expense is as follows:

	2018	2017
Profit before income tax	184,633	270,417
Income tax at statutory tax rate (9%)	16,617	24,338
Income tax adjustments due to permanent differences are as follows:		
Deferred use of tax allowance	6,122	10,492
Share-based payment	342	324
Permanent differences from unused tax losses	118	-
Differences in transition to IFRS	-	(3,503)
Amounts unenforceable by tax law	(17)	(481)
Use of tax allowance in the current year	(4,835)	(6,964)
Dividend income	(6,164)	(7,437)
Other	(992)	2,098
Income tax	**11,191**	**18,867**
Effective tax rate	6.1%	7.0%

NOTE 28: **FINANCIAL RISK MANAGEMENT (in HUF mn)**

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

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

28.1. Credit risk

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

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

28.1.1. Analysis by loan types

Classification into risk classes

The Bank classifies financial assets measured at amortised cost and fair value through other comprehensive income, and loan commitments and financial guarantees into the following categories in accordance with IFRS 9:

Stage 1	Performing
Stage 2	Performing, but compared to the initial recognition it shows significant increase in credit risk
Stage 3	Non-performing
POCI	Purchased or originated credit impaired

In the case of trade receivables, contract assets and lease receivables the Bank applies the simplified approach and calculates only lifetime expected credit loss.

A client or loan must be qualified as default if from the following two conditions, one or both of them occurs:
- if the client delays more than 90 days. This is objective criterion.
- there is the possibility that the client won't pay all of its obligation. This condition is examined on the basis of probability criterions of default.

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

Credit risk of financial assets increases significantly at the following conditions:
- the payment delay exceeds 30 days,
- it is classified as performing forborne,
- based on individual decision, its currency suffered a significant "shock" since the disbursement of the loan and no hedge position exists in respect thereof,
- the transaction/client rating exceeds a predefined value or falls into a determined range, or compared to the historic value it deteriorates to a predefined degree,
- in the case household mortgage loans, the loan-to-value ratio ("LTV") exceeds a predefined rate,
- default on another loan of the retail client, if no cross-default exists,
- in case of corporate and municipal clients:
    - financial difficulty (capital requirements, liquidity, impairment of asset quality),
    - significant decrease of activity and liquidity in the market of the asset,
    - client's rating reflects higher risk, but better than default,
    - collateral value drops significantly, from which the client pays the loan,
    - more than 50% decrease in owner's equity due to net losses,
    - client under dissolution,
    - negative information from Central Credit Information System: the payment delay exceeds 30 days

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn)

28.1.1. Analysis by loan types [continued]

Classification into risk classes [continued]

Financial assets classifies as non-performing, if the following conditions are met:

- default,
- non-performing forborne exposures,
- in case of corporate and municipal clients:
  - breach of contract terms and conditions
  - critical financial difficulty of the client (capital requirements, liquidity, impairment of asset quality),
  - liquidation, dissolution or debt clearing procedures against client,
  - forced deregistration procedures from company registry,
  - terminated loans by the Bank,
  - in case of fraud,
  - negative information from Central Credit Information System: the payment delay exceeds 90 days,
  - cessation of active markets of the financial asset,
  - default of ISDA based contracts.

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

Expected credit losses are measured in a way that reflects:

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

Individual and collective assessment of expected credit losses

The following exposures are subject to collective valuation methods:

- retail exposures,
- SME exposures,
- any other type of exposure of the above ones, which are not significant individually or not in workout progress

Debt securities and corporate bonds are assessed collectively, excluding stage 3 portfolios and portfolios under workout management.

Exposures are classified into DPD categories based on their delinquencies.

The following non-retail or SME exposures are classified individually:

- stage 3 exposures
- exposures under workout management
- purchased or originated credit impaired financial assets

Exposures with an aggregated credit risk above HUF 100 million are assessed individually.

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan types [continued]

Gross carrying amount and accumulated loss allowance of financial assets at amortized cost and fair value through other comprehensive income by IFRS 9 stages as at 31 December 2018:

		Gross carrying amount / Notional amount					Loss allowance / Provision				
	Carrying amount	**Stage 1**	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired**	**Total**
Cash, amounts due from banks and balances with the National Bank of Hungary	360,855	360,855	-	-	-	360,855	-	-	-	-	-
Placements with other banks, net of allowance for placement losses	1,074,840	1,075,281	1,606	-	-	1,076,887	2,035	12	-	-	2,047
Retail consumer loans	*388,276*	*384,300*	*11,242*	*5,835*	*34*	401,411	*4,856*	*3,808*	*4,461*	*10*	13,135
Mortgage loans	*143,806*	*110,012*	*22,874*	*10,639*	*5,968*	149,493	*86*	*766*	*4,057*	*778*	5,687
Municipal loans	*97,005*	*91,754*	*1,622*	*5,388*	-	98,764	*560*	*35*	*1,164*	-	1,759
Corporate loans	*1,957,031*	*1,862,267*	*88,900*	*41,110*	*10,426*	2,002,703	*11,039*	*9,287*	*24,465*	*881*	45,672
Loans at amortised cost	2,586,118	2,448,333	124,638	62,972	16,428	2,652,371	16,541	13,896	34,147	1,669	66,253
FVOCI securities[1]	1,451,905	1,451,905	-	-	-	1,451,905	1,859	-	-	-	1,859
Securities at amortised cost	1,431,789	1,433,457	-	-	-	1,433,457	1,668	-	-	-	1,668
Total as at 31 December 2018	**6,905,507**	**6,782,859**	**113,216**	**62,972**	**16,428**	**6,975,475**	**22,901**	**13,110**	**34,147**	**1,669**	**71,827**
Loan commitments	1,313,715	1,293,192	20,182	341	-	1,313,715	4,276	1,249	164		5,689
Financial guarantees	828,000	818,209	9,641	150	-	828,000	1,909	671	63	-	2,643
Loan commitments and financial guarantees total	***2,133,383***	***2,111,401***	***29,823***	***491***	-	***2,141,715***	***6,185***	***1,920***	***227***	-	***8,332***

[1] FVOCI securities are measured at fair value in the Statement of Financial Position (See Note 7). Loss allowance for FVOCI securities is recognised in the Statement of Other Comprehensive Income, which is included in the accumulated loss allowance of this table.

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

28.1. *Credit risk [continued]*

28.1.1. Analysis by loan types [continued]

Gross carrying amount and accumulated loss allowance of financial assets at amortized cost and fair value through other comprehensive income in accordance with IAS 39 by IFRS 9 stages as at 31 December 2017:

		Gross carrying amount / Notional amount					Loss allowance / Provision				
	Carrying amount	**Stage 1**	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired**	**Total**
Cash, amounts due from banks and balances with the National Bank of Hungary	296,018	295,667	351	-	-	296,018	-	-	-	-	-
Placements with other banks, net of allowance for placement losses	978,098	975,390	2,708	-	-	978,098	-	-	-	-	-
Retail consumer loans	*327,816*	*318,354*	*13,233*	*5,931*	*83*	337,601	*5,198*	*2,190*	*2,371*	*26*	9,785
Mortgage loans	*171,544*	*119,824*	*39,426*	*13,779*	*5,454*	178,483	*209*	*578*	*5,431*	*721*	6,939
Municipal loans	*43,574*	*33,666*	*5,968*	*5,291*	-	44,925	*128*	*26*	*1,197*	-	1,351
Corporate loans	*1,602,112*	*1,533,558*	*29,550*	*81,037*	*9,400*	1,653,545	*5,110*	*497*	*45,058*	*768*	51,433
Loans at amortised cost	2,145,046	2,005,402	88,177	106,038	14,937	2,214,554	10,645	3,291	54,057	1,515	69,508
FVOCI securities[1]	1,735,902	1,735,902	-	-	-	1,735,902	-	-	-	-	-
Securities at amortised cost	1,043,779	1,043,779	-	-	-	1,043,779	-	-	-	-	-
Total as at 31 December 2017	**6,198,843**	**6,056,140**	**91,236**	**106,038**	**14,937**	**6,268,351**	**10,645**	**3,291**	**54,057**	**1,515**	**69,508**
Transition to application of IFRS 9	*(55,721)*	*(39,340)*	*(274)*	*(41)*	*(2,021)*	*(41,676)*	*6,464*	*5,679*	*1,902*	-	*14,045*
Total as at 31 December 2017 in accordance with IFRS 9	***6,143,122***	***6,016,800***	***90,962***	***105,997***	***12,916***	***6,226,675***	***17,109***	***8,970***	***55,959***	***1,515***	***83,553***
Loan commitments	1,039,733	1,037,563	8,580	716	-	1,046,859	6,960	68	98	-	7,126
Financial guarantees	608,230	609,043	1,654	414	-	611,111	2,328	395	158	-	2,881
Loan commitments and financial guarantees total	***1,647,963***	***1,646,606***	***10,234***	***1,130***	-	***1,657,970***	***9,288***	***463***	***256***	-	***10,007***
Transition to application of IFRS 9	*4,031*	-	-	-	-	-	*(3,911)*	*(240)*	*120*	-	*(4,031)*
Loan commitments and financial guarantees total in accordance with IFRS 9	***1,651,994***	***1,646,606***	***10,234***	***1,130***	-	***1,657,970***	***5,377***	***223***	***376***	-	***5,976***

[1] FVOCI securities are measured at fair value in the Statement of Financial Position (See Note 7). Loss allowance for FVOCI securities is recognised in the Statement of Other Comprehensive Income, which is included in the accumulated loss allowance of this table.

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan types [continued]

Changes in the Loss allowance of financial assets at amortised cost and fair value through other comprehensive by IFRS 9 stages

Loans at amortised cost

For the year ended 31 December 2018	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 1 January 2018 IFRS 9	**11,990**	**8,970**	**55,959**	**1,515**	**78,439**
Transfer to Stage 1	160	(3,123)	(665)	-	(3,628)
Transfer to Stage 2	(401)	7,343	(2,088)	-	4,854
Transfer to Stage 3	(96)	(1,334)	3,713	-	2,283
Net remeasurement of loss allowance	(1,151)	253	(3,718)	777	(3,844)
New financial assets originated or purchased	8,900	3,235	9,512	29	21,676
Financial assets that have been derecognised (other than write-offs)	(2,804)	(1,420)	(26,789)	(482)	(31,495)
Unwind of discount	-	-	2,939	505	3,444
Write-offs	(57)	(28)	(4,716)	(675)	(5,476)
Loss allowance as at 31 December 2018	**16,541**	**13,896**	**34,147**	**1,669**	**66,253**

Loan commitments and financial guarantees

For the year ended 31 December 2018	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2018 IFRS 9	**5,377**	**223**	**376**	**5,976**
Transfer to Stage 1	31	(137)	(90)	(196)
Transfer to Stage 2	(94)	1,432	(24)	1,314
Transfer to Stage 3	(3)	(2)	91	86
Net remeasurement of loss allowance	21	94	13	128
New financial assets originated or purchased	1,104	170	1	1,275
Decrease	(251)	140	(140)	(251)
Loss allowance as at 31 December 2018	**6,185**	**1,920**	**227**	**8,332**

Placements with other banks, net of allowance for placement losses

For the year ended 31 December 2018	Stage 1	Stage 2	Total
Loss allowance as at 1 January 2018 IFRS 9	**1,257**	**-**	**1,257**
Net remeasurement of loss allowance	208	-	208
New financial assets originated or purchased	1,099	12	1,111
Financial assets that have been derecognised (other than write-offs)	(529)	-	(529)
Loss allowance as at 31 December 2018	**2,035**	**12**	**2,047**

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan types [continued]

Changes in the Loss allowance of financial assets at amortised cost and fair value through other comprehensive by IFRS 9 stages

Securities at amortised cost

For the year ended 31 December 2018	Stage 1	Total
Loss allowance as at 1 January 2018 IFRS 9	**1,477**	**1,477**
Net remeasurement of loss allowance	168	168
New financial assets originated or purchased	108	108
Financial assets that have been derecognised (other than write-offs)	(85)	(85)
Loss allowance as at 31 December 2018	**1,668**	**1,668**

FVOCI Securities

For the year ended 31 December 2018	Stage 1	Total
Loss allowance as at 1 January 2018 IFRS 9	**2,380**	**2,380**
Net remeasurement of loss allowance	(143)	(143)
New financial assets originated or purchased	560	560
Financial assets that have been derecognised (other than write-offs)	(938)	(938)
Loss allowance as at 31 December 2018	**1,859**	**1,859**

Loan portfolio by countries

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

Country	2018 Gross loan and placement with other banks portfolio	2018 Loss allowance	2017 Gross loan and placement with other banks portfolio	2017 Loss allowance
Hungary	2,631,797	(53,027)	2,373,404	(37,685)
Malta	565,112	(1,821)	465,497	-
Serbia	119,146	(3,630)	39,393	(3,255)
Slovakia	77,760	(54)		
Bulgaria	67,964	(2,586)	56,846	(1,399)
Romania	59,680	(1,325)	23,807	(2,988)
Croatia	32,556	(75)	36,604	(14)
Belgium	26,812	(74)	18,571	-
France	26,013	(3)	6,087	-
Switzerland	24,743	(188)	-	-
Cyprus	19,263	(620)	41,536	(14,113)
United Kingdom	18,020	(24)	43,782	-
Russia	14,298	(2,398)	17,835	(1,830)
Other	46,094	(2,475)	69,290	(8,224)
Loans and placements with other banks at amortised cost total	**3,729,258**	**(68,300)**	**3,192,652**	**(69,508)**
Hungary	32,745	-	-	-
Loans at fair value total	**32,745**	**-**	**-**	**-**
Loans and placements with other banks total	**3,762,003**	**(68,300)**	**3,192,652**	**(69,508)**

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

28.1. Credit risk [continued]

28.1.2. Collaterals

The collateral value held by the Bank by collateral types is as follows (**total collateral value**). The collaterals cover loans as well as off-balance sheet exposures.

Types of collateral		2018	2017
Mortgages		1,161,094	1,073,509
Guarantees and warranties		388,753	273,462
Deposit		127,856	119,887
from this:	*Cash*	*42,160*	47,354
	Securities	*82,079*	69,742
	Other	*3,617*	2,791
Assignment		121	160
Other		682	1,172
Total		**1,678,506**	**1,468,190**

The collateral value held by the Bank by collateral types is as follows (**to the extent of the exposures**). The collaterals cover loans as well as off-balance sheet exposures.

Types of collateral		2018	2017
Mortgage		429,424	421,699
Guarantees and warranties		264,171	162,297
Deposit		66,448	57,938
from this:	*Cash*	*10,700*	11,331
	Securities	*52,654*	45,150
	Other	*3,094*	1,457
Assignment		67	72
Other		588	912
Total		**760,698**	**642,918**

The coverage level of loan portfolio to the extent of the exposures increased from 20.14% to 20.40% as at 31 December 2018, while the coverage to the total collateral value decreased from 45.99% to 45.01%.

The collateral value (**total collateral value**) held by the Bank related to non-performing loan portfolio:

	Gross carrying amount	Loss allowance	Carrying amount	Collateral value
Mortgage loans	10,639	(4,057)	6,582	44,471
Municipal loans	5,388	(1,164)	4,224	7,923
Corporate loans	41,110	(24,465)	16,645	31,223
Total	**57,137**	**(29,686)**	**27,451**	**83,617**

28.1.3. Restructured loans

	2018		2017	
	Gross portfolio	Loss allowance	Gross portfolio	Loss allowance
Consumer loans	3,973	(1,729)	4,845	(98)
Mortgage loans	4,623	(331)	31,976	(399)
Corporate loans	13,101	(2,303)	14,147	(93)
SME loans	2,469	(362)	718	(7)
Total	**24,166**	**(4,724)**	**51,686**	**(598)**

Restructured portfolio definition

Restructured definition used by the Bank is in accordance with EBA (EU) 2015/227 regulation.

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

28.1. Credit risk [continued]

Financial instruments by rating categories[1]

Held-for-trading securities as at 31 December 2018

	A1	A2	A3	Aa3	Aaa	Ba2	Baa1	Baa2	Baa3	Not rated	Total
Other non-interest bearing securities	-	-	-	-	-	-	-	-	-	7,169	7,169
Government bonds	-	-	-	-	277	-	-	-	10,149	112	10,538
Mortgage bonds	-	-	-	-	-	-	-	-	972	-	972
Hungarian government discounted Treasury Bills	-	-	-	-	-	-	-	-	1,059	-	1,059
Shares Hungarian government interest bearing Treasury Bills	-	-	-	-	-	-	-	-	-	-	-
Shares	51	43	6	25	-	7	24	6	4	205	371
Other securities	-	-	-	-	-	-	-	-	1,456	637	2,093
Total	**51**	**43**	**6**	**25**	**277**	**7**	**24**	**6**	**13,640**	**8,123**	**22,202**
Accrued interest											120
Total											**22,322**

Securities mandatorily at fair value through profit or loss as at 31 December 2018

	Not rated	Total
Government bonds	4,754	4,754
Mortgage bonds	15,879	15,879
Total	**20,633**	**20,633**
Accrued interest		25
Total		**20,658**

[1] Moody's ratings

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

28.1. Credit risk [continued]

Financial instruments by rating categories[1]

FVOCI securities as at 31 December 2018

	A2	A3	Ba1	Ba2	Ba3	Baa1	Baa2	Baa3	Not rated	Total
Mortgage bonds	-	-	-	-	-	53,703	-	148,220	23,042	224,965
Government bonds	15,163	6,076	32,219	3,152	6,388	6,819	12,513	787,481	-	869,811
Hungarian government interest bearing Treasury Bills	-	-	-	-	-	-	-	234,399	-	234,399
Other non-interest bearing securities	-	-	-	-	-	-	-	-	4,345	4,345
Shares	-	-	-	-	-	-	-	-	15,029	15,029
Other bonds	-	1,613	-	-	-	-	1,423	32,789	50,517	86,342
Total	**15,163**	**7,689**	**32,219**	**3,152**	**6,388**	**60,522**	**13,936**	**1,202,889**	**92,933**	**1,434,891**
Accrued interest										17,014
Provision for impairment										-
Total										**1,451,905**

Securities at amortised cost as at 31 December 2018

	Baa3	Total
Government bonds	1,408,031	1,408,031
Mortgage bonds	4,708	4,708
Subtotal	**1,412,739**	**1,412,739**
Accrued interest		20,718
Provision for impairment		(1,668)
Total		**1,431,789**

[1] Moody's ratings

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

28.1. Credit risk [continued]

An analysis of securities (held for trading, mandatorily FVTPL, FVOCI and amortised cost) in a country breakdown is as follows:

Country	2018 Gross carrying amount	2018 Loss allowance	2017 Gross carrying amount	2017 Loss allowance
Hungary	1,433,457	(1,668)	1,043,779	-
Securities at amortised cost total	**1,433,457**	**(1,668)**	**1,043,779**	**-**
Hungary	1,307,438	-	1,566,919	(86)
Russia	34,154	-	26,123	-
Slovakia	27,342	-	51,941	-
Poland	15,300	-	20,598	-
Bulgaria	12,684	-	10,432	-
Romania	11,752	-	3,752	-
Austria	11,318	-	9,963	-
Slovenia	7,052	-	10,297	-
Serbia	6,501	-	6,357	-
Lithuania	6,220	-	6,071	-
Luxembourg	4,249	-	8,302	-
Croatia	3,211	-	-	-
United States of America	3,146	-	2,410	-
Sweden	1,443	-	1,423	-
Portugal	95	-	12	-
Spain	-	-	11,388	-
FVOCI securities total	**1,451,905**	**-**	**1,735,988**	**(86)**
Hungary	20,902	-	171,136	-
Luxembourg	759	-	17,537	-
United States of America	390	-	843	-
Germany	269	-	281	-
Canada	2	-	-	-
Russia	-	-	16,895	-
Ireland	-	-	3	-
Netherlands	-	-	19	-
France	-	-	1	-
Held for trading securities total	**22,322**	**-**	**206,715**	**-**
Hungary	15,879	-	-	-
Luxembourg	4,779	-	-	-
Securities mandatorily measured at fair value through profit or loss	**20,658**	**-**	**-**	**-**
Securities total	**2,928,342**	**(1,668)**	**2,986,482**	**(86)**

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

28.2. Maturity analysis of assets and liabilities and liquidity risk

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

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

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

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

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

Due to the balance sheet adjustment process (deleveraging) experienced in the last few years, the liquidity reserves of the Bank increased significantly while the liquidity risk exposure has decreased considerably. Currently the (over)coverage of risk liquidity risk exposure by high quality liquid assets is at all-time record highs. In 2018 there were no material changes in the liquidity risk management process.

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

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

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

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

28.2. Maturity analysis of assets and liabilities and liquidity risk [continued]

As at 31 December 2018	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	360,855	-	-	-	-	360,855
Placements with other banks, net of allowance for placement losses	178,396	583,643	214,512	98,289	-	1,074,840
Financial assets at fair value through profit or loss	3,666	3,684	4,112	3,457	20,743	35,662
Securities at fair value through other comprehensive income	161,230	316,138	649,969	236,262	19,104	1,382,703
Loans	767,748	526,660	839,943	484,512	-	2,618,863
Investment properties	-	-	-	-	2,333	2,333
Investments in subsidiaries, associates and other investments	-	-	-	-	1,177,573	1,177,573
Securities at amortised cost	25,394	110,812	719,339	518,041	-	1,373,586
Other financial assets	40,148	217	-	-	-	40,365
TOTAL ASSETS	**1,537,437**	**1,541,154**	**2,427,875**	**1,340,561**	**1,219,753**	**8,066,780**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	268,317	19,868	408,234	41,617	-	738,036
Deposits from customers	5,606,687	86,398	32,161	16,252	-	5,741,498
Liabilities from issued securities	5,367	8,873	29,878	837	-	44,955
Subordinated bonds and loans	459	-	-	109,998	-	110,457
Financial liabilities at fair value through profit or loss	576	2,757	10,418	18,480	-	32,231
Other financial liabilities	99,942	-	-	-	-	99,942
TOTAL LIABILITIES	**5,981,348**	**117,896**	**480,691**	**187,184**	**-**	**6,767,119**
NET POSITION	**(4,443,911)**	**1,423,258**	**1,947,184**	**1,153,377**	**1,219,753**	**1,299,661**
Receivables from derivative financial instruments classified as held for trading	2,706,784	910,253	491,372	493,496	-	4,601,905
Liabilities from derivative financial instruments classified as held for trading	(2,681,228)	(911,351)	(399,983)	(351,368)	-	(4,343,930)
Net position of derivative financial instruments classified as held for trading	***25,556***	***(1,098)***	***91,389***	***142,128***	***-***	***257,975***
Receivables from derivative financial instruments designated as hedge accounting	3,469	5,093	253,412	71,025	-	332,999
Liabilities from derivative financial instruments designated as hedge accounting	(3,215)	(163,000)	(426,646)	(32,099)	-	(624,960)
Net position of derivative financial instruments designated as hedging accounting	***254***	***(157,907)***	***(173,234)***	***38,926***	***-***	***(291,961)***
Net position of derivative financial instruments total	**25,810**	**(159,005)**	**(81,845)**	**181,054**	**-**	**(33,986)**
Commitments to extend credit	283,691	827,693	189,721	12,610	-	*1,313,715*
Bank guarantees	105,742	64,370	91,755	566,976	-	*828,843*
Off-balance sheet commitments	**389,433**	**892,063**	**281,476**	**579,586**	**-**	**2,142,558**

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

28.2. Maturity analysis of assets and liabilities and liquidity risk [continued]

As at 31 December 2017	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	399,124	-	-	-	-	399,124
Placements with other banks, net of allowance for placement losses	138,742	632,540	133,921	72,895	-	978,098
Financial assets at fair value through profit or loss	54,086	68,088	71,472	1,960	4,458	200,064
Securities at fair value through other comprehensive income	149,840	378,622	797,039	258,019	28,287	1,611,807
Loans	588,355	447,458	733,058	376,178	-	2,145,049
Investment properties	-	-	-	-	2,374	2,374
Investments in subsidiaries, associates and other investments	-	-	-	-	967,414	967,414
Securities at amortised cost	17,592	59,000	400,460	520,304	-	997,356
Other financial assets	34,568	440	-	-	-	*35,008*
TOTAL ASSETS	**1,382,307**	**1,586,148**	**2,135,950**	**1,229,356**	**1,002,533**	**7,336,294**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	342,518	46,614	228,411	76,990	-	694,533
Deposits from customers	5,007,487	162,666	7,739	14,977	-	5,192,869
Liabilities from issued securities	5,942	13,825	33,845	2,037	-	55,649
Subordinated bonds and loans	458	-	-	108,377	-	108,835
Other financial liabilities	86,709	21	1	-	-	86,731
TOTAL LIABILITIES	**5,443,114**	**223,126**	**269,996**	**202,381**	**-**	**6,138,617**
NET POSITION	**(4,060,807)**	**1,363,022**	**1,865,954**	**1,026,975**	**1,002,533**	**1,197,677**
Receivables from derivative financial instruments classified as held for trading	1,576,859	980,684	602,924	177,124	-	3,337,591
Liabilities from derivative financial instruments classified as held for trading	(1,737,269)	(804,796)	(537,437)	(212,736)	-	(3,292,238)
Net position of derivative financial instruments classified as held for trading	***(160,410)***	***175,888***	***65,487***	***(35,612)***	***-***	***45,353***
Receivables from derivative financial instruments designated as fair value hedge	3,879	60,909	154,571	65,355	-	284,714
Liabilities from derivative financial instruments designated as fair value hedge	-	(306,221)	(464,003)	(20,238)	-	(790,462)
Net position of derivative financial instruments designated as hedging instrument	**3,879**	**(245,312)**	**(309,432)**	**45,117**	**-**	**(505,748)**
Net position of derivative financial instruments total	**(156,531)**	**(69,424)**	**(243,945)**	**9,505**	**-**	**(460,395)**
Commitments to extend credit	245,680	587,238	201,540	12,402	-	*1,046,860*
Bank guarantees	54,439	82,349	87,204	388,107	-	*612,099*
Off-balance sheet commitments	**300,119**	**669,587**	**288,744**	**400,509**	**-**	**1,658,959**

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

28.3. Net foreign currency position and foreign currency risk

As at 31 December 2018

	USD	EUR	CHF	Others	Total
Assets[1]	264,205	1,279,816	35,863	218,536	1,798,420
Liabilities	(280,240)	(872,965)	(26,934)	(137,730)	(1,317,869)
Derivative financial instruments	31,969	(510,272)	(8,775)	(78,002)	(565,080)
Net position	**15,934**	**(103,421)**	**154**	**2,804**	**(84,529)**

As at 31 December 2017

	USD	EUR	CHF	Others	Total
Assets[1]	251,432	986,017	36,244	177,509	1,451,202
Liabilities	(259,500)	(895,639)	(23,947)	(127,053)	(1,306,139)
Derivative financial instruments	10,927	(178,924)	(10,035)	(54,467)	(232,499)
Net position	**2,859**	**(88,546)**	**2,262**	**(4,011)**	**(87,436)**

The table above provides an analysis of the Bank’s main foreign currency exposures. The remaining foreign currencies are shown within ‘Others’. The Bank monitors its foreign exchange position for compliance with the regulatory requirements of the NBH and its own limit system established in respect of limits on open positions. The measurement of the Bank’s open its currency position involves monitoring the VaR limit on the foreign exchange exposure of the Bank.

28.4. Interest rate risk management

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, therefore, indicates to what extent it is exposed to interest rate risk.

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

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

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

[1] The assets category contains foreign currency investments in subsidiaries that are measured at cost, and are deducted from the net position calculation.

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

28.4. Interest rate risk management [continued]

As at 31 December 2018	within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest - bearing		Total		Total
ASSETS	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	
Cash, amounts due from banks and balances with the National Bank of Hungary	**26,894**	**117,623**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**197,766**	**18,572**	**224,660**	**136,195**	**360,855**
fixed interest	26,894	117,623	-	-	-	-	-	-	-	-	-	-	26,894	117,623	**144,517**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	197,766	18,572	197,766	18,572	**216,338**
Placements with other banks, net of allowance for placement losses	**130,405**	**60,039**	**487,764**	**65,592**	**51,692**	**75,304**	**1,151**	**3,208**	**131,682**	**25,597**	**31,174**	**11,232**	**833,868**	**240,972**	**1,074,840**
fixed interest	4,401	12,062	27,509	46,364	22,371	73,711	1,151	3,208	131,682	25,597	-	-	187,114	160,942	**348,056**
variable interest	126,004	47,977	460,255	19,228	29,321	1,593	-	-	-	-	-	-	615,580	68,798	**684,378**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	31,174	11,232	31,174	11,232	**42,406**
Securities held for trading	**197**	**564**	**1,510**	**112**	**6,879**	**5,521**	**-**	**-**	**-**	**-**	**7,244**	**295**	**15,830**	**6,492**	**22,322**
fixed interest	2	-	67	112	4,910	5,521	-	-	-	-	-	-	4,979	5,633	**10,612**
variable interest	195	564	1,443	-	1,969	-	-	-	-	-	-	-	3,607	564	**4,171**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	7,244	295	7,244	295	**7,539**
Securities mandatorily measured at fair value through profit or loss	**-**	**4,778**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**15,880**	**-**	**15,880**	**4,778**	**20,658**
variable interest	-	4,778	-	-	-	-	-	-	-	-	-	-	-	4,778	**4,778**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	15,880	-	15,880	-	**15,880**
Securities at fair value through other comprehensive income	**68,525**	**5,464**	**141,848**	**30,405**	**366,647**	**1,930**	**242,827**	**18,083**	**355,750**	**201,051**	**566**	**18,809**	**1,176,163**	**275,742**	**1,451,905**
fixed interest	48,869	5,464	60,908	17,549	320,053	1,930	242,827	18,083	355,750	201,051	-	-	1,028,407	244,077	**1,272,484**
variable interest	19,656	-	80,940	12,856	46,594	-	-	-	-	-	-	-	147,190	12,856	**160,046**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	566	18,809	566	18,809	**19,375**
Loans	**100,965**	**131,383**	**557,742**	**865,556**	**45,658**	**61,812**	**22,359**	**1,752**	**635,415**	**45,254**	**98,355**	**19,867**	**1,460,494**	**1,125,624**	**2,586,118**
fixed interest	16,727	125,609	628	1,268	14,922	10,847	20,092	1,752	627,631	45,254	-	-	680,000	184,730	**864,730**
variable interest	84,238	5,774	557,114	864,288	30,736	50,965	2,267	-	7,784	-	-	-	682,139	921,027	**1,603,166**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	98,355	19,867	98,355	19,867	**118,222**
Loans mandatorily measured at fair value through profit or loss	**32,741**	**-**	**4**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**32,745**	**-**	**32,745**
variable interest	32,741	-	4	-	-	-	-	-	-	-	-	-	32,745	-	**32,745**
Securities at amortised cost	**-**	**-**	**5,063**	**-**	**114,843**	**-**	**87,284**	**-**	**1,224,599**	**-**	**-**	**-**	**1,431,789**	**-**	**1,431,789**
fixed interest	-	-	5,063	-	114,843	-	87,284	-	1,224,599	-	-	-	1,431,789	-	**1,431,789**
Other financial instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**36,245**	**4,120**	**36,245**	**4,120**	**40,365**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	36,245	4,120	36,245	4,120	**40,365**

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

28.4. Interest rate risk management [continued]

As at 31 December 2018	within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest -bearing		Total		Total
ASSETS [continued]	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	
Derivative financial assets	**842,720**	**477,551**	**906,538**	**442,944**	**645,964**	**447,835**	**19,192**	**264,144**	**21,335**	**86,116**	**234,159**	**126,585**	**2,669,908**	**1,845,175**	**4,515,083**
fixed interest	814,446	475,487	756,961	409,011	643,141	409,508	19,192	264,144	21,335	86,116	-	-	2,255,075	1,644,266	**3,899,341**
variable interest	28,274	2,064	149,577	33,933	2,823	38,327	-	-	-	-	-	-	180,674	74,324	**254,998**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	234,159	126,585	234,159	126,585	**360,744**
LIABILITIES															
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	**405,239**	**139,449**	**4,153**	**55,330**	**1,152**	**22,846**	**1,514**	**-**	**98,302**	**280**	**8,593**	**1,178**	**518,953**	**219,083**	**738,036**
fixed interest	378,351	44,280	4,153	16,450	1,152	2,798	1,514	-	98,302	280	-	-	483,472	63,808	**547,280**
variable interest	26,521	95,026	-	38,880	-	20,048	-	-	-	-	-	-	26,521	153,954	**180,475**
non-interest-bearing	367	143	-	-	-	-	-	-	-	-	8,593	1,178	8,960	1,321	**10,281**
Financial liabilities at fair value through profit or loss	**32,231**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**32,231**	**-**	**32,231**
fixed interest	127	-	-	-	-	-	-	-	-	-	-	-	127	-	**127**
variable interest	32,104	-	-	-	-	-	-	-	-	-	-	-	32,104	-	**32,104**
Deposits from customers	**776,851**	**186,738**	**137,071**	**66,001**	**43,433**	**21,122**	**316**	**-**	**3,878,011**	**628,739**	**1,026**	**2,190**	**4,836,708**	**904,790**	**5,741,498**
fixed interest	409,363	121,045	137,071	66,001	43,433	21,122	316	-	3,878,011	628,739	-	-	4,468,194	836,907	**5,305,101**
variable interest	367,488	65,693	-	-	-	-	-	-	-	-	-	-	367,488	65,693	**433,181**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	1,026	2,190	1,026	2,190	**3,216**
Liabilities from issued securities	**23,609**	**838**	**12,114**	**1,903**	**4,211**	**2,094**	**780**	**-**	**1,145**	**-**	**-**	**-**	**41,859**	**4,835**	**46,694**
fixed interest	-	-	-	-	2,156	-	780	-	1,145	-	-	-	4,081	-	**4,081**
variable interest	23,609	838	12,114	1,903	2,055	2,094	-	-	-	-	-	-	37,778	4,835	**42,613**
Subordinated bonds and loans	**-**	**-**	**-**	**110,454**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**110,454**	**110,454**
fixed interest	-	-	-	110,454	-	-	-	-	-	-	-	-	-	110,454	**110,454**
Other financial instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**88,899**	**11,043**	**88,899**	**11,043**	**99,942**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	88,899	11,043	88,899	11,043	**99,942**
Derivative financial liabilities	**1,100,223**	**222,002**	**963,409**	**364,545**	**615,478**	**473,561**	**273,251**	**14,581**	**39,921**	**60,613**	**219,675**	**133,304**	**3,211,957**	**1,268,606**	**4,480,563**
fixed interest	1,072,047	212,543	823,305	341,397	613,026	441,110	273,251	14,581	39,921	60,613	-	-	2,821,550	1,070,244	**3,891,794**
variable interest	28,176	9,459	140,104	23,148	2,452	32,451	-	-	-	-	-	-	170,732	65,058	**235,790**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	219,675	133,304	219,675	133,304	**352,979**
NET POSITION	**(1,135,706)**	**248,375**	**983,722**	**806,376**	**567,409**	**72,779**	**96,952**	**272,606**	**(1,648,598)**	**(331,614)**	**303,196**	**51,765**	**(833,025)**	**1,120,287**	**287,262**

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

28.4. Interest rate risk management [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 at fair value through other comprehensive income	**96,610**	**17,230**	**70,013**	**25,444**	**378,449**	**13,466**	**229,078**	**20,026**	**620,104**	**215,242**	**31,821**	**18,419**	**1,426,075**	**309,827**	**1,735,902**
fixed interest	58,092	-	50,493	-	354,614	13,466	229,078	20,026	620,104	215,242	-	-	1,312,381	248,734	**1,561,115**
variable interest	38,518	17,230	19,520	25,444	23,835	-	-	-	-	-	-	-	81,873	42,674	**124,547**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	31,821	18,419	31,821	18,419	**50,240**
Loans	**546,758**	**293,065**	**316,668**	**544,879**	**110,470**	**30,330**	**48,042**	**11,053**	**201,600**	**42,181**	**-**	**-**	**1,223,538**	**921,508**	**2,145,046**
fixed interest	36,263	3,361	23,382	6,132	54,185	12,281	46,799	11,053	178,605	42,181	-	-	339,234	75,008	**414,242**
variable interest	510,495	289,704	293,286	538,747	56,285	18,049	1,243	-	22,995	-	-	-	884,304	846,500	**1,730,804**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Securities at amortised cost	**-**	**-**	**-**	**-**	**59,004**	**-**	**116,374**	**-**	**850,809**	**-**	**17,592**	**-**	**1,043,779**	**-**	**1,043,779**
fixed interest	-	-	-	-	59,004	-	116,374	-	850,809	-	-	-	1,026,187	-	**1,026,187**
variable interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	17,592	-	17,592	-	**17,592**
Other financial instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**31,430**	**3,578**	**31,430**	**3,578**	**35,008**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	31,430	3,578	31,430	3,578	**35,008**
Derivative financial instruments	**738,965**	**345,105**	**669,088**	**411,851**	**417,975**	**303,805**	**27,319**	**22,221**	**20,581**	**27,869**	**620,839**	**226,643**	**2,494,767**	**1,337,494**	**3,832,261**
fixed interest	718,076	341,564	492,515	409,530	413,526	291,636	26,856	22,221	20,581	27,869	-	-	1,671,554	1,092,820	**2,764,374**
variable interest	20,889	3,541	176,573	2,321	4,449	12,169	463	-	-	-	-	-	202,374	18,031	**220,405**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	620,839	226,643	620,839	226,643	**847,482**

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

28.4. Interest rate risk management [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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subordinated bonds and loans	**-**	**-**	**-**	**108,835**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**108,835**	**108,835**
variable interest	-	-	-	108,835	-	-	-	-	-	-	-	-	-	108,835	**108,835**
Other financial instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**79,413**	**7,318**	**79,413**	**7,318**	**86,731**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	79,413	7,318	79,413	7,318	**86,731**
Derivative financial instruments	**875,512**	**207,857**	**909,079**	**147,644**	**397,702**	**319,233**	**43,494**	**9,167**	**35,935**	**38,342**	**372,879**	**464,774**	**2,634,601**	**1,187,017**	**3,821,618**
fixed interest	853,960	204,038	770,912	123,845	394,530	313,953	43,428	9,167	35,935	38,342	-	-	2,098,765	689,345	**2,788,110**
variable interest	21,552	3,819	138,167	23,799	3,172	5,280	66	-	-	-	-	-	162,957	32,898	**195,855**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	372,879	464,774	372,879	464,774	**837,653**
NET POSITION	**(424,140)**	**188,885**	**336,960**	**580,674**	**536,761**	**36,411**	**422,420**	**48,623**	**(1,153,217)**	**(303,965)**	**354,535**	**(212,904)**	**73,319**	**337,724**	**411,043**

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

28.5. Market risk

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

28.5.1. Market risk sensitivity analysis

The VaR risk measure estimates the potential loss in pre-taxation profit over a given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognising offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 99% VaR number used by the Group reflects the 99% probability that the daily loss will not exceed the reported VaR.

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

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

Historical VaR (99%, one-day) by risk type	**Average**	
	2018	**2017**
Foreign exchange	430	274
Interest rate	134	113
Equity instruments	33	10
Diversification	-	-
Total VaR exposure	**597**	**397**

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

28.5.2. Foreign currency sensitivity analysis

The following table details the OTP's sensitivity to an increase and decrease in the HUF exchange rate against the EUR and USD, over a 3 months period. Monte Carlo simulation is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items as strategic open positions related to foreign activities. The strategic open position related to the foreign operations was EUR (310) million as of 31 December 2018. The strategic EUR open FX position kept to hedge the currency risk of the expected FX-denominated net earnings of the main foreign subsidiaries. High portion of strategic positions are considered as effective hedge of future profit inflows of foreign subsidiaries, and so FX risk alters the bank's capital and not its earnings. A positive number below indicates an increase in profit where the HUF strengthens against the EUR. For a weakening of the HUF against the EUR, there would be an equal and opposite impact on the profit, and the balances below would be negative.

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

28.5. Market risk [continued]

28.5.2. Foreign currency sensitivity analysis [continued]

Probability	Effects to the P&L in 3 months period 2018 In HUF billion	2017 In HUF billion
1%	(12.2)	(11.9)
5%	(8.3)	(8.1)
25%	(3.5)	(3.3)
50%	(0.4)	(0.3)
25%	2.6	2.6
5%	6.7	6.7
1%	9.6	9.4

Notes:
(1) The short term loss on the strategic open position is compensated by the long-term exchange rate gain on the foreign operations.
(2) Monte Carlo simulation is based on the empirical distribution of the historical exchange rate movements between 2002 and 2018.

28.5.3. Interest rate sensitivity analysis

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

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

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

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

The net interest income in a one year period after 1 January 2019 would be decreased by HUF 1,185 million (scenario 1) and HUF 3,100 million (scenario 2) as a result of these simulation. This effect is counterbalanced by capital gains (HUF 268 million for scenario 1, HUF 3,331 million for scenario 2) on the government bond portfolio held for hedging.

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

Description	2018 Effects to the net interest income (one-year period)	2018 Effects to shareholder's equity (Price change of FVOCI government bonds)	2017 Effects to the net interest income (one-year period)	2017 Effects to shareholder's equity (Price change of FVOCI government bonds)
HUF (0.1%) parallel shift	(1,662)	671	(1,608)	771
EUR (0.1%) parallel shift	(93)	-	(144)	-
USD (0.1%) parallel shift	(40)	-	(89)	-
Total	**(1,795)**	**671**	**(1,841)**	**771**

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

28.5. Market risk [continued]

28.5.4. Equity price sensitivity analysis

The following table shows the effect of the equity price sensitivity. The Group uses VaR calculation with 1 day holding period and 99% confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognising offsetting positions and correlations between products and markets. The daily loss will not exceed the reported VaR number with 99% of probability.

The stress test assumes the largest price movement of the last year and calculates with it as the adverse direction. These scenario shows the loss of the portfolio when all prices change with the maximum amount of the last year.

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

28.6. Capital management

Capital management

The primary objective of the capital management of the Bank is to ensure the prudent operation, the entire compliance with the prescriptions of the regulator for a persistent business operation and maximising the shareholder value, accompanied by an optimal financing structure.

The capital management of the Bank includes the management and evaluation of the shareholders` equity available for hedging risks, other types of funds to be recorded in the equity and all material risks to be covered by the capital.

The basis of the capital management of the Bank in the short run is the continuous monitoring of its capital position, in the long run the strategic and the business planning, which includes the monitoring and forecast of the capital position of the Bank.

The Bank maintains the capital adequacy required by the regulatory bodies and the planned risk taking mainly by means of ensuring and developing its profitability. In case the planned risk level of the Bank exceeded its Core and Supplementary capital, the Bank ensures the prudent operation by occasional measures. A further tool in the capital management of the Bank is the dividend policy, and the transactions performed with the treasury shares.

Capital adequacy

The Capital Requirements Directive package (CRDIV/CRR) transposes the global standards on banking regulation (commonly known as the Basel III agreement) into the EU legal framework. The rules are applied from 1 January 2014. They set stronger prudential requirements for institutions, requiring them to keep sufficient capital reserves and liquidity. This framework makes institutions in the EU more solid and strengthens their capacity to adequately manage the risks linked to their activities, and absorb any losses they may incur in doing business.

The Bank has entirely complied with the regulatory capital requirements in 2018 as well as in 2017.

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

28.6. Market risk [continued]

Capital adequacy [continued]

The Bank's capital adequacy calculation is in line with IFRS and based on Basel III as at 31 December 2017 and 31 December 2018. The Bank uses the standard method for determining the regulatory capital requirements of the credit risk and market risk while in case of the operational risk the Advanced Measurement Approach (AMA).

The calculation of the Capital Adequacy ratio as at 31 December 2018 and 31 December 2017 is as follows:

	2018	2017
	Basel III	**Basel III**
Tier 1 capital	1,433,839	1,311,383
Common equity Tier 1 capital (CET1)	*1,433,839*	*1,311,383*
Additional Tier 1 capital (AT1)	-	-
Tier 2 capital	109,994	108,377
Regulatory capital	**1,543,833**	**1,419,760**
	-	
Credit risk capital requirement	401,989	327,802
Market risk capital requirement	9,263	11,262
Operational risk capital requirement	26,466	22,547
Total requirement regulatory capital	**437,718**	**361,611**
Surplus capital	**1,106,115**	**1,058,149**
CET 1 ratio	26.21%	29.01%
Capital adequacy ratio	**28.22%**	**31.41%**

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 29: TRANSFER AND RECLASSIFICATION OF FINANCIAL INSTRUMENTS (in HUF mn)

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

in HUF million

Date of reclassification	Reason for reclassification	Type of securities	Nominal value at reclassification	Fair value at the date of reclassification	EIR at the date of reclassification	Interest income
1 September 2018	Change in business model	retail hungarian government bonds	66,506	66,484	2%-6.4%	643

During the year 2018, securities issued by the Hungarian Government with the nominal value of HUF 66.506 million were transferred from the trading portfolio to the securities measured at fair value through other comprehensive income. The Bank has previously held retail government bonds in the portfolio measured at fair value through other comprehensive income. During 2018 the Bank changed the business model of the retail government bonds to manage all on the basis of a single business model aimed at collecting the future contractual cash flows and/or selling them.

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

Financial assets transferred but not derecognised

	Transferred assets Carrying amount	Associated liabilities Carrying amount
Financial assets at fair value through other comprehensive income		
Debt securities	19,105	19,290
Total:	**19,105**	**19,290**
Financial assets at amortised cost		
Debt securities	261,824	260,362
Total:	**261,824**	**260,362**
Total:	**280,929**	**279,652**

As at 31 December 2018, the Bank had obligation from repurchase agreements about HUF 280 billion. Securities sold temporarily under repurchase agreements will continue to be recognized in the Statement of Financial Position of the Bank in the appropriate securities category. The related liability is measured at amortized cost in the Statement of Financial Position as ’Amounts due to banks and Hungarian Government deposits from the National Bank of Hungary and other banks’. Under these repurchase agreements only Hungarian and foreign government bonds were transferred.

NOTE 30: OFF-BALANCE SHEET ITEMS (in HUF mn)

In the normal course of business, the Bank becomes a party to various financial transactions that are not reflected on the statement of financial position and are referred to as off-balance sheet financial instruments. The following represents notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

Contingent liabilities and commitments

	2018	2017
Commitments to extend credit	1,313,715	1,046,860
Guarantees arising from banking activities	828,843	612,099
from this: Payment undertaking liabilities (related to issue of mortgage bonds) of OTP Mortgage Bank	*472,213*	*278,960*
Contingent liabilities and commitments total in accordance with IFRS 9	**2,142,558**	**1,658,959**
Legal disputes (disputed value)	3,772	5,231
Confirmed letters of credit	96	90
Other	191,907	159,119
Contingent liabilities and commitments total in accordance with IAS 37	**195,775**	**164,440**
Total	**2,338,333**	**1,823,399**

Legal disputes

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

The Bank believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash-flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation.
Provision due to legal disputes was HUF 691 million and HUF 1,207 million as at 31 December 2018 and 31 December 2017, respectively. (See Note 19.)

Commitments to extend credit, guarantees and letter of credit

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

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

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

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

NOTE 30: OFF-BALANCE SHEET ITEMS (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.

Under a syndication agreement with its wholly owned subsidiary, OTP Mortgage Bank Ltd., the Bank had guaranteed, in return for an annual fee, to purchase all mortgage loans held by OTP Mortgage Bank Ltd. that become non-performing. The repurchase guarantee contract of non-performing loans between OTP Mortgage Bank Ltd. and OTP Bank Plc. was modified in 2010. According to the new arrangement the repurchase guarantee was cancelled and OTP Bank Plc. gives bail to the loans originated or purchased by the Bank.

NOTE 31: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF mn)

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

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

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

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

The quantity of usable shares for individuals calculated for settlement of share-based payment shall be determined as the ratio of the amount of share-based payment and share price determined by Supervisory Board[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 31: 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 2013-2014 were determined by Board of Directors for periods of each year as follows:

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

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

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

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

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

	Approved pieces of shares	Exercised until 31 December 2018	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable at 31 December 2018
Share-purchasing period started in 2014	406,044	404,263	4,369	1,781	-
Share-purchasing period started in 2015	804,469	804,469	4,918	-	-
Share-purchasing period started in 2016	393,750	393,750	6,775	-	-
Share-purchasing period starting in 2017	483,987	483,987	9,405	-	-

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

	Approved pieces of shares	Exercised until 31 December 2018	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable at 31 December 2018
Share-purchasing period started in 2015	176,459	176,459	5,828	-	-
Share-purchasing period started in 2016	360,425	359,524	7,011	901	-
Share-purchasing period starting in 2017	189,778	189,778	9,362	-	-
Share-purchasing period starting in 2018	223,037	200,433	10,097	-	22,604

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

	Approved pieces of shares	Exercised until 31 December 2018	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable at 31 December 2018
Share-purchasing period started in 2016	152,247	152,247	7,373	-	-
Remuneration exchanged to share provided in 2016	10,947	10,947	6,509	-	-
Share-purchasing period starting in 2017	299,758	299,758	9,403	-	-
Remuneration exchanged to share applying in 2017	20,176	20,176	9,257	-	-
Share-purchasing period starting in 2018	166,047	151,489	10,009	-	14,558
Remuneration exchanged to share applying in 2018	9,229	9,229	10,098	-	-
Share-purchasing period starting in 2019	-	-	-	-	204,585
Remuneration exchanged to share applying in 2019	-	-	-	-	10,671

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

	Approved pieces of shares	Exercised until 31 December 2018	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable at 31 December 2018
Share-purchasing period started in 2017	147,984	147,984	9,544	-	-
Remuneration exchanged to share provided in 2017	4,288	4,288	9,194	-	-
Share-purchasing period starting in 2018	321,528	314,769	10,283	-	6,759
Remuneration exchanged to share applying in 2018	8,241	8,241	10,098	-	-
Share-purchasing period starting in 2019	-	-	-	-	163,390
Remuneration exchanged to share applying in 2019	-	-	-	-	4,148
Share-purchasing period starting in 2020	-	-	-	-	172,356
Remuneration exchanged to share applying in 2020	-	-	-	-	4,567

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

Based on parameters accepted by Supervisory Board, relating to the year **2017** effective pieces are follows as at 31 December 2018:

	Approved pieces of shares	Exercised until 31 December 2018	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable at 31 December 2018
Share-purchasing period starting in 2018	108,243	108,243	11,005	-	-
Remuneration exchanged to share applying in 2018	11,926	11,926	10,098	-	-
Share-purchasing period starting in 2019	-	-	-	-	212,263
Remuneration exchanged to share applying in 2019	-	-	-	-	26,293
Share-purchasing period starting in 2020	-	-	-	-	101,577
Remuneration exchanged to share applying in 2020	-	-	-	-	12,838
Share-purchasing period starting in 2021	-	-	-	-	120,981
Remuneration exchanged to share applying in 2021	-	-	-	-	12,838
Share-purchasing period starting in 2022	-	-	-	-	42,820
Remuneration exchanged to share applying in 2022	-	-	-	-	3,003

Effective pieces relating to the periods starting in 2019-2022 settled during valuation of performance of year 2015-2017, can be modified based on risk assessment and personal changes.

In connection with shares given as a part of payments detailed in the *Direction Chief Executive about Remuneration of Work in OTP Bank* and the share-based compensation for Board of Directors and connecting compensation based on performance assessment accounted as equity-settled share based transactions, HUF 3,797 million was recognized as expense for the year ended 31 December 2018.

NOTE 32: RELATED PARTY TRANSACTIONS (in HUF mn)

The Bank provides loans to related parties, and collects deposits.

Transactions with related parties (subsidiaries), other than increases in share capital or dividend received, are summarized below:

a) *Loans provided to related parties*

	2018		2017	
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
OTP Mortgage Bank Ltd.	508,617	(690)	583,443	-
OTP Financing Malta Company Ltd. (Malta)	540,722	(1,715)	448,296	-
Merkantil Bank Ltd.	303,294	(784)	242,205	-
OTP Factoring Ltd.	33,119	(175)	63,548	-
Splitska banka (Croatia)	-	-	31,014	-
OTP Real Estate Leasing Ltd.	19,752	(299)	20,979	-
OTP Holding Malta Ltd.	24,388	(105)	17,201	-
OTP banka Srbija a.d. (Serbia)	41,564	(94)	10,258	-
CIL Babér Ltd.	5,718	(30)	5,710	-
Vojvodanska Banka ad Novi Sad	38,118	(126)	4,652	-
OTP Real Estate Ltd.	6,875	(36)	4,426	-
Merkantil Lease Ltd.	3,926	(21)	4,411	-
JN Parkolóház Llc.	4,284	(23)	2,786	-
Merkantil Real Estate Leasing Ltd.	4,777	(25)	2,344	-
SPLC-P Ltd.	1,337	(7)	2,156	(9)
OAO OTP Bank (Russia)	1,645	-	1,624	-
D-ÉG Thermoset Llc.	859	(837)	1,301	(1,273)
Other	59,481	(160)	2,475	-
Total	**1,598,476**	**(5,127)**	**1,448,829**	**(1,282)**

b) *Deposits from related parties*

	2018	2017
DSK Bank EAD (Bulgaria)	260,921	227,668
JSC "OTP Bank" (Russia)	94,394	73,669
OTP Mortgage Bank Ltd.	44,891	22,769
OTP Funds Servicing and Consulting Ltd.	43,132	39,349
OTP Building Society Ltd.	36,424	37,474
OTP banka Hrvatska d.d. (Croatia)	33,386	865
OTP Bank Romania S.A. (Romania)	26,329	1,688
Crnogorska komercijalna banka a.d (Montenegro)	12,541	3,977
Inga Kettő Ltd.	12,455	5,446
OTP Holding Ltd. / OTP Financing Ciprus Co. Ltd. (Ciprus)	11,434	4,165
OTP Factoring Ltd.	9,225	4,899
Balansz Private Open-end Investment Fund	7,814	2,297
Merkantil Bank Ltd.	6,746	6,617
OTP Bank JSC (Ukraine)	6,429	17,591
OTP Financing Malta Company Ltd. (Malta)	4,184	3,405
Air-Invest Llc.	4,121	3,162
OTP Employee Stock Ownership Program (OTP ESOP)	4,063	1,454
Other	29,553	38,889
Total	**648,042**	**495,384**

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

c) Interests received by the Bank[1]

	2018	2017
OTP Financing Malta Company Ltd. (Malta)	9,829	8,282
Merkantil Bank Ltd.	3,996	3,760
OTP Mortgage Bank Ltd.	916	2,575
Other	718	1,487
Total	**15,459**	**16,104**

d) Interests paid by the Bank[2]

	2018	2017
JSC "OTP Bank" (Russia)	6,027	6,299
DSK Bank EAD (Bulgaria)	355	3,533
OTP Funds Servicing and Consulting Ltd.	208	79
Splitska banka (Croatia)	120	85
Crnogorska komercijalna banka a.d (Montenegro)	102	79
Other	255	511
Total	**7,067**	**10,586**

e) Commissions received by the Bank

	2018	2017
From OTP Fund Management Ltd. in relation to trading activity	4,744	5,110
From OTP Real Estate Investment Fund Management Ltd. in relation to trading activity	3,411	2,233
From OTP Building Society Ltd. (agency fee in relation to finalised customer contracts)	1,808	1,555
OTP Funds Servicing and Consulting Ltd.	527	410
OTP Mobile Service Llc.	440	-
From OTP Fund management Ltd. in relation to deposit services	341	397
From LLC MFO “OTP Finance” (Russia) (guarantee fee)	26	573
Other	570	474
Total	**11,867**	**10,752**

f) Commissions paid by the Bank

	2018	2017
OTP Factoring Ltd. related to commission fee	248	225
Crnogorska komercijalna bank a.d. (Montenegro) related to loan portfolio management fee	-	14
Total	**248**	**239**

g) Transactions related to OTP Mortgage Bank Ltd.:

	2018	2017
Fees and commissions received from OTP Mortgage Bank Ltd. relating to the loans	12,792	14,254
Loans sold to OTP Mortgage Bank Ltd. with recourse (including interest)	402	447
The gross book value of the loans sold	398	399

1 Derivatives and interest on securities are not included.

2 Derivatives and interest on securities are not included.

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

h) Transactions related to OTP Factoring Ltd.:

	2018	2017
The gross book value of the loans sold	13,654	13,774
Provision for loan losses on the loans sold	8,348	7,398
Loans sold to OTP Factoring Ltd. without recourse (including interest)	4,747	4,914
Loss on these transaction (recorded in the separate financial statements as loan and placement loss)	559	1,462

The underlying mortgage rights were also transferred to OTP Factoring Ltd.

i) Transactions related to OTP Banka Slovensko a.s. (Slovakia)

	2018	2017
Securities issued by OTP Banka Slovensko a.s. (Slovakia) held by OTP Bank (nominal value in HUF million)	27,328	51,793

j) Related party transactions with key management

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

Compensations	**2018**	**2017**
Short-term employee benefits	2,316	2,416
Share-based payment	2,431	2,520
Long-term employee benefits (on the basis of IAS 19)	209	226
Total	**4,956**	**5,162**

	2018	2017
Loans provided to companies owned by the Management (in the normal course of business)	61,692	55,164
Commitments to extend credit and bank guarantees	37,567	38,530
Credit lines of the members of Board of Directors and the Supervisory Board and their close family members (at market conditions)	4,450	4,450

An analysis of Credit lines "A" is as follows (in HUF mn):

	2018	2017
Members of Board of Directors and their close family members	84	84
Members of Supervisory Board and their close family members	4	3
Executive	117	77
Total	**205**	**164**

Interest	central bank base rate + 5%	central bank base rate + 5%
Handling fee	1%	1%
Collateral	income received to bank account	income received to bank account

NOTE 32: 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):

	2018	**2017**
Members of Board of Directors and their close family members	14	14
Executive	5	5
Total	**19**	**19**
Interest	floating, monthly 2.18%	floating, monthly 2.19%
Annual fee	15,404 HUF/year	15,044 HUF/year
Collateral	income received to bank account	income received to bank account

An analysis of loans related to Mastercard Bonus Gold is as follows (in HUF mn):

	2018	**2017**
Executive	2	-
Total	**2**	**-**
Interest	floating, monthly 2.63%	-
Annual fee	4,084 HUF/year	-
Collateral	income received to bank account	-

An analysis of credit limit related to Amex Gold/Mastercard Bonus Gold is as follows (in HUF mn):

	2018	**2017**
Members of Board of Directors and their close family members	2	2
Executive	35	10
Total	**37**	**12**
Interest	floating, monthly 2.44%	floating, monthly 2.45%
Annual fee	16,504 HUF/year	16,118 HUF/year
Collateral	income received to bank account	income received to bank account

An analysis of Amex Platinum/Visa Infinite is as follows (in HUF mn):

	2018	**2017**
Members of Board of Directors and their close family members	17	17
Executive and their close family members	79	40
Total	**96**	**57**
Interest	floating, monthly 2.47%	floating, monthly 2.48%
Annual fee	19,678 Ft/year	19,217 Ft/year
Collateral	income received to bank account	income received to bank account

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

j) Related party transactions with key management [continued]

An analysis of Lombard loans is as follows (in HUF mn):

	2018	2017
Members of Board of Directors and their close family members	29,084	29,084
Interest	0.66%	0.66%
Collateral	Securities bail	Securities bail
Executive and their close family members	230	230
Interest	2.39%	2.39%
Collateral	Government bond, Long Term Investment Account, Shares in investment funds	Government bond, Long Term Investment Account, Shares in investment funds
Total	**29,314**	**29,314**

An analysis of Personal loans is as follows (in HUF mn):

	2018	2017
Executive	12	5
Interest	9.99% (7 mn HUF) 11.55% (5 mn HUF)	11.55%
Collateral	income received to bank account	income received to bank account

An analysis of Loans distributed by OTP in its capacity of employee is as follows (in HUF mn):

	2018	2017
Executive	2	-
Interest	-	-
Collateral	real estate	-

An analysis of payment to Executives related to their activity in Board of Directors and Supervisory Board is as follows (in HUF mn):

	2018	2017
Members of Board of Directors	1,119	857
Members of Supervisory Board	113	107
Total	**1,232**	**964**

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

NOTE 33: TRUST ACTIVITIES (in HUF mn)

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

	2018	2017
Loans managed by the Bank as a trustee	30,156	34,226

NOTE 34: CONCENTRATION OF ASSETS AND LIABILITIES

	2018	2017
In the percentage of the total assets		
Receivables from, or securities issued by the Hungarian Government or the NBH	26%	32%
Securities issued by the OTP Mortgage Bank Ltd.	1.80%	2.23%

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

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

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

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

NOTE 35: EARNINGS PER SHARE

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

	2018	2017
Net profit for the year attributable to ordinary shareholders (in HUF mn)	173,442	251,550
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	279,237,071	278,873,206
Basic Earnings per share (in HUF)	**621**	**902**
Separate net profit for the year attributable to ordinary shareholders (in HUF mn)	173,442	251,550
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	279,302,400	278,949,440
Diluted Earnings per share (in HUF)	**621**	**902**

	2018	2017
	number of shares	
Weighted average number of ordinary shares	280,000,010	280,000,010
Average number of Treasury shares	(762,939)	(1,126,804)
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS	**279,237,071**	**278,873,206**
Dilutive effect of options issued in accordance with the Remuneration Policy / Management Option Program and convertible into ordinary shares[1]	65,329	76,233
The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS	**279,302,400**	**278,949,440**

The ICES bonds could potentially dilute basic EPS in the future, but were not included in the calculation of diluted EPS because they are antidilutive for the period presented.

[1] In 2018 and 2017 dilutive effect is in connection with the Remuneration Policy.

NOTE 36: NET GAIN OR LOSS REALISED ON FINANCIAL INSTRUMENTS (in HUF mn)

As at 31 December 2018	Net interest income and expense	Net non-interest gain and loss	Provision for impairment	Other comprehensive income
Cash, amounts due from banks and balances with the National Bank of Hungary	280	-	-	-
Placements with other banks, net of allowance for placement losses	6,143	-	895	-
Securities held for trading	3,155	(2,639)	-	-
Securities at fair value through other comprehensive income	40,551	2,305[1]	(553)	43,910
Loans	120,505	15,823	(8,002)	-
Securities at amortised cost	47,342	12,430	191	-
Derivative financial instruments	11,619	4,224	-	-
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	(11,103)	-	-	-
Deposits from customers	(4,552)	133,636	-	-
Liabilities from issued securities	(796)	-	-	-
Subordinated bonds and loans	(2,994)	-	-	-
Other	(40)	-	-	-
Total	**210,110**	**165,779**	**(7,469)**	**43,910**

As at 31 December 2017	Net interest income and expense	Net non-interest gain and loss	Provision for impairment	Other comprehensive income
Cash, amounts due from banks and balances with the National Bank of Hungary	1,403	-	-	-
Placements with other banks, net of allowance for placement losses	6,978	-	32	-
Securities held for trading	2,805	2,965	-	-
Securities at fair value through other comprehensive income	41,642	4,419[1]	-	70,200
Loans, net of allowance for loan losses	113,712	18,117	11,152	-
Securities at amortised cost	44,737	-		-
Derivative financial instruments	(8,937)	2,519	-	-
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	(15,853)	-	-	-
Deposits from customers	(4,801)	124,728	-	-
Liabilities from issued securities	(151)	-	-	-
Subordinated bonds and loans	(3,033)	-	-	-
Other	(42)	-	-	-
Total	**178,460**	**152,748**	**11,184**	**70,200**

[1] In year 2018 HUF 2,305 million while in year 2017 HUF 4,419 million net non-interest gain on securities at fair value through other comprehensive income was transferred from other comprehensive income to profit or loss.

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn)

In determining the fair value of a financial asset or liability the Bank in the case of instruments that are quoted on an active market uses the market price. In most cases market price is not publicly available so the Bank has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 37. d) for more information about fair value classes applied for financial assets and liabilities measured at fair value in these financial statements.

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

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

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

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

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

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

a) *Fair value of financial assets and liabilities*

	2018		2017	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Cash, amounts due from banks and balances with the National Bank of Hungary	360,855	360,855	399,124	399,124
Placements with other banks, net of allowance for placement losses	1,074,840	1,074,283	978,098	990,581
Financial assets at fair value through profit or loss	155,042	155,042	303,927	303,927
Held for trading securities	*22,322*	*22,322*	*206,715*	*206,715*
Derivative financial instruments classified as held for trading	*112,062*	*112,062*	*97,212*	*97,212*
Securities mandatorily measured at fair value through profit or loss	*20,658*	*20,658*	-	-
Securities at fair value through other comprehensive income	1,451,905	1,451,905	1,735,902	1,735,902
Loans[41]	2,618,863	2,791,633	2,145,046	2,286,645
Securities at amortised cost	1,431,789	1,495,025	1,043,779	1,149,034
Derivative financial instruments designated as hedging instruments	12,221	12,221	26,383	26,383
Other financial assets	40,365	40,365	35,008	35,008
FINANCIAL ASSETS TOTAL	**7,145,880**	**7,381,329**	**6,667,267**	**6,926,604**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	738,036	726,944	694,533	687,249
Deposits from customers	5,741,498	5,739,024	5,192,869	5,191,558
Liabilities from issued securities	46,694	55,199	60,304	76,701
Derivative financial instruments designated as hedging instruments	6,925	6,925	17,179	17,179
Financial liabilities at fair value through profit or loss	32,231	32,231	-	-
Held for trading derivative financial liabilities	82,838	82,838	79,545	79,545
Subordinated bonds and loans	110,454	101,648	108,835	105,702
Other financial liabilities	99,942	99,942	86,731	86,731
FINANCIAL LIABILITIES TOTAL	**6,858,618**	**6,844,751**	**6,239,996**	**6,244,665**

b) *Derivative financial instruments*

OTP Bank regularly enters into hedging transactions in order to decrease its financial risks. However some economically hedging transaction do not meet the criteria to account for hedge accounting, therefore these transactions were accounted as derivatives held for trading. Net investment hedge in foreign operations is not applicable in separate financial statements.

The assessment of the hedge effectiveness (both for fair value hedges and cash flow hedges) to determine the economic relationship between the hedged item and the hedging instrument is accomplished with prospective scenario analysis via different rate shift scenarios of the relevant risk factor(s) of the hedged risk component(s). The fair value change of the hedged item and the hedging instrument is compared in the different scenarios. Economic relationship is justified if the change of the fair value of the hedged item and the hedging instrument are in the opposite direction and the absolute changes are similar amounts. The hedge ratio is determined as the ratio of the notional of the hedged item and the notional of the hedging instrument. The sources of hedge ineffectiveness are the not hedged risk components (e.g. change of cross currency basis spreads in case of interest rate risk hedges), slight differences in maturity dates and interest payment dates in case of fair value hedges, and differences between the carrying amount of the hedged item and the carrying amount of the hedging instrument in case of FX hedges (e.g. caused by interest rate risk components in the fair value of the hedging instrument).

[41] Fair value of loans increased due to decrease of short-term and long-term interests.

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

b) Derivative financial instruments [continued]

Fair value of derivative financial instruments

The Bank has the following held for trading derivatives and derivatives designated as hedge accounting:

	2018	
	Assets	**Liabilities**
Held for trading derivative financial instruments		
Interest rate derivatives		
Interest rate swaps	22,862	(21,669)
Cross currency interest rate swaps	17,078	(17,164)
OTC options	256	(256)
Forward rate agreement	17	(57)
Total interest rate derivatives (OTC derivatives)	**40,213**	**(39,146)**
From this: Interest rate derivatives cleared by central counterparty	*581*	*(142)*
Foreign exchange derivatives		
Foreign exchange swaps	27,705	(25,982)
Foreign exchange forward	2,435	(2,914)
OTC options	3,310	(3,377)
Foreign exchange spot conversion	69	(32)
Total foreign exchange derivatives (OTC derivatives)	**33,519**	**(32,305)**
From this: Foreign exchange derivatives cleared by central counterparty	*5,859*	*(1,741)*
Equity stock and index derivatives		
Commodity Swaps	1,883	(1,048)
Equity swaps	6,728	(568)
OTC derivatives total	**8,611**	**(1,616)**
Exchange traded futures and options	105	(965)
Total equity stock and index derivatives	**8,716**	**(2,581)**
Derivatives held for risk management not designated in hedge		
Interest rate swaps	23,495	(8,107)
Foreign exchange swaps	5,675	(615)
Foreign exchange spot conversion	436	(57)
Forward	9	(26)
Total derivatives held for risk management not designated in hedge	**29,615**	**(8,805)**
From this: Total derivatives cleared by central counterparty held for risk management	119	(8,329)
Total Held for trading derivative financial instruments	**112,063**	**(82,837)**
Derivative financial instruments designated as hedge accounting		
Derivatives designated in cash flow hedges		
Interest rate swaps	3,751	(523)
Total derivatives designated in cash flow hedges	**3,751**	**(523)**
Derivatives designated in fair value hedges		
Interest rate swaps	4,467	(6,050)
Cross currency interest rate swaps	4,002	(352)
Total derivatives designated in fair value hedges	**8,469**	**(6,402)**
Total derivatives held for risk management (OTC derivatives)	**12,220**	**(6,925)**

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Hedge accounting

Amount, timing and uncertainty of future cash flows - hedging instruments

Type of hedge	Type of risk	Type of instrument	Within one month	Within three months and over one month	Within one year and over three months	Within five years and over one year	More than five years	Total
Fair Value Hedge	**Interest rate risk**	**Interest rate swap**						
		HUF						
		Notional	-	-	163,114	289,600	368	**453,082**
		Average Interest Rate (%)	-	-	1.72%	1.73%	1.57%	
		EUR						
		Notional	10	-	-	187	27	**224**
		Average Interest Rate (%)	6.00%	-	-	0.54%	0.58%	
		USD						
		Notional	-	-	6	400	74	**480**
		Average Interest Rate (%)	-	-	2.68%	1.91%	2.22%	
Fair Value Hedge	**FX & IR risk**	**Cross currency interest rate swap**						
		EUR/HUF						
		Notional	-	1	-2	15	16	**30**
		Average Interest Rate (%)	(1.67%)	(1.58%)	(1.70%)	(1.61%)	(1.63%)	
		Average FX Rate	306.30	310.86	304.09	309.85	308.81	
Fair Value Hedge	**FX risk**	**Cross currency interest rate swap**						
		RON/HUF						
		Notional	-	-	-	1,200	-	**1,200**
		Average FX Rate	-	-	-	68.66	-	
		RUB/HUF						
		Notional	-	-	-	7,000	-	**7,000**
		Average FX Rate	-	-	-	4.23	-	
Fair Value Hedge	**Other**	**Interest rate swap**						
		HUF						
		Notional	-	2,879	1,776	30,479	837	**35,971**
Cash flow Hedge	**Interest rate risk**	**Interest rate swap**						
		HUF						
		Notional	-	-	-	12,194	28,027	**40,221**
		Average FX Rate	-	-	-	1.77	2.46	

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Hedge accounting [continued]

Derivative financial instruments designated as hedge accounting as follows:

	Type of instrument	Type of risk	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument for the year ended 2018 Assets	Liabilities	Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge ineffectiveness for the year ended 2018
Fair value hedge							
	Interest rate swap	Interest rate risk	661,704	2,649	(6,051)	Derivative financial instruments designated as hedge accounting	1,551
	Cross-currency swap	FX & IR risk	8,982	-	(181)	Derivative financial instruments designated as hedge accounting	(149)
	Cross-currency swap	FX risk	115,060	4,003	(170)	Derivative financial instruments designated as hedge accounting	(438)
	Interest rate swap	Other	38,834	1,818	-	Derivative financial instruments designated as hedge accounting	(3)
Cash flow hedge							
	Interest rate swap	Interest rate risk	133,379	3,751	(523)	Derivative financial instruments designated as hedge accounting	(118)

	Type of risk	Carrying amount of the hedged item for the year ended 2018		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item for the year ended 2018		Line item in the statement of financial position in which the hedged item is included
		Assets	Liabilities	Assets	Liabilities	
Fair value hedges						
- Loans	***Interest rate risk***	25,958	-	(162)	-	Loans
- Government bonds	***Interest rate risk***	1,236,599	-	(2,298)	-	Securities at amortised cost
- Government bonds	***Interest rate risk***	101,707	-	(280)	-	Securities at fair value through other comprehensive income
- Government bonds	***Interest rate risk***	1,891	-	(1,563)	-	Financial assets at fair value through profit or loss
- Other securities	***Interest rate risk***	185,576	-	(68)	-	Securities at fair value through other comprehensive income
- Loans	***FX & IR risk***	9,282	-	7	-	Loans
- Loans	***FX risk***	103,905	-	(590)	-	Loans
- Other securities	***Other risk***	-	(35,716)	-	5,978	Liabilities from issued securities
Fair value hedges total		**1,664,918**	**(35,716)**	**(4,954)**	**5,978**	
Cash flow hedges						
- Loans	***Interest rate risk***	40,204	-	1,100	-	Loans

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Hedge accounting [continued]

Type of instrument	Type of risk	Change in the value of the hedging instrument recognised in cash flow hedge reserve	Hedge effectiveness recognised in profit or loss	Line item in profit or loss that includes hedge ineffectiveness
Interest rate swap	Interest rate risk	(949)	949	Interest Income from Placements with other banks, net of allowance for placement losses

d) Fair value classes

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

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

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

As at 31 December 2018	Total	Level 1	Level 2	Level 3
Loans mandatorily measured at fair value through profit or loss	32,745	-	-	32,745
Financial assets at fair value through profit or loss	154,922	41,023	113,899	-
from this: securities held for trading	*22,202*	*20,260*	*1,942*	-
from this: positive fair value of derivative financial instruments classified as held for trading	*112,062*	*105*	*111,957*	-
from this: securities mandatorily measured at fair value through profit or loss	*20,658*	*20,658*	-	-
Securities at fair value through other comprehensive income	1,434,891	1,028,768	402,977	3,146
Positive fair value of derivative financial instruments designated as fair value hedge	12,221	-	12,221	-
Financial assets measured at fair value total	**1,634,779**	**1,069,791**	**529,097**	**35,891**
Financial liabilities at fair value through profit or loss	32,231	-	-	32,231
Negative fair value of derivative financial instruments classified as held for trading	82,838	965	81,873	-
Negative fair value of derivative financial instruments designated as fair value hedge				
Negative fair value of derivative financial instruments designated as cash flow hedge	6,925	-	6,925	-
Financial liabilities measured at fair value total	**121,994**	**965**	**88,798**	**32,231**

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

d) Fair value classes [continued]

As at 31 December 2017	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	300,846	107,373	193,473	-
from this: securities held for trading	*203,634*	*107,093*	*96,541*	-
from this: positive fair value of derivative financial instruments classified as held for trading	*97,212*	*280*	*96,932*	-
Securities at fair value through other comprehensive income	1,717,274	1,253,700	461,164	2,410
Positive fair value of derivative financial instruments designated as fair value hedge	10,148	-	10,148	-
Financial assets measured at fair value total	**2,028,268**	**1,361,073**	**664,785**	**2,410**
Negative fair value of derivative financial instruments classified as held for trading	79,545	*188*	*79,357*	-
Negative fair value of derivative financial instruments designated as fair value hedge	17,179	-	17,179	-
Financial liabilities measured at fair value total	**96,724**	**188**	**96,536**	**-**

Valuation techniques and sensitivity analysis on Level 3 instruments

Sensitivity analysis is performed on products with significant unobservable inputs (Level 3) to generate a range of reasonably possible alternative valuations. The sensitivity methodologies applied take account of the nature of the valuation techniques used, as well as the availability and reliability of observable proxy and historical date and the impact of using alternative models.
The calculation is based on range or spread data of reliable reference source or a scenario based on relevant market analysis alongside the impact of using alternative models. Sensitivities are calculated without reflecting the impact of any diversification in the portfolio.

Unobservable inputs used in measuring fair value

Type of financial instrument	Valuation technique	Significant unobservable input	Range of estimates for unobservable input
VISA C shares	Market approach combined with expert judgement	discount applied due to illiquidity and litigation	+/-12%
Loans mandatory measured at fair value through profit and loss	Discounted cash flow modell	Probability of default	+/- 20%

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

d) *Fair value classes [continued]*

The effect of unobservable inputs on fair value measurement

Although the Bank believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing the assumptions used to reasonably possible alternative assumptions would have the following effects.

31 December 2018	Fair values		Effect on profit and loss	
	Favourable	Unfavourable	Favourable	Unfavourable
VISA C shares	1,875	1,425	225	(225)
Loans mandatory measured at fair value through profit and loss	33,094	32,396	349	(349)
Total	**34,969**	**33,821**	**574**	**(574)**

31 December 2017	Fair values		Effect on profit and loss	
	Favourable	Unfavourable	Favourable	Unfavourable
VISA C shares	1,521	1,141	190	(190)
Total	**1,521**	**1,141**	**190**	**(190)**

The favourable and unfavourable effects of using reasonably possible alternative assumptions for the valuation of Visa C shares have been calculated by modifying the discount rate used for the valuation by +/-12% as being the best estimates of the management as at 31 December 2018 and 2017 respectively.

In the case of loans mandatory measured at fair value through profit and loss the Bank calculated the favourable and unfavourable effects of using reasonably possible alternative assumptions by modifying the rates of probability of default by +/- 20% as the most significant unobservable input.

NOTE 38: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2018

1) Capital increase at OTP banka Srbija

2) Capital increase at OTP banka Slovensko

3) Capital increase at OTP Bank Romania

4) Capital increase at Bank Center No. 1.

5) Acquisition at Albania

6) Acquisition at Bulgaria

7) Acquisition at Serbia

8) Capital increase at DSK Bank

See details about the events in Note 9.

NOTE 39: SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

In 2018 OTP Bank signed an acquisition agreement on purchasing 100% shareholding of Societe Generale Banka Srbija a.d. („SGS"), the Serbian subsidiary of Societe Generale Group and all subsidiaries held by SGS. With a market share of 8.4% based on total assets, SGS is the 4th largest bank on the Serbian banking market and as a universal bank it has been active in the retail and corporate segment as well. The Bank is expected to have the control over SGS in 2019.

In 2018 OTP Bank signed an acquisition agreement on purchasing 87.85% shareholding of Mobiasbanca – Groupe Societe Generale S.A. („SGMB"), the Moldovan subsidiary of Societe Generale Group. With a market share of 13.3%, SGMB is the 4th largest bank on the Moldovan banking market and as a universal bank it has been active in the retail and corporate segment as well. The financial closure of the transaction is expected in the coming months subject to obtaining all the necessary regulatory approvals. The Bank is expected to have the control SGMB in 2019.

NOTE 40: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE BANK'S FINANCIALS (in HUF mn)

The **eurozone**'s annual growth rate slowed to 1.8% in 2018 according to preliminary data, down from a sky-rocketing 2.5% year/year performance in 2017, and the storm clouds never stop gathering – in the form of intensifying trade war, the politics of Italy's new government, the faltering Brexit talks, the new emission rules in the auto industry, and Turkey's problems. At the beginning of 2018, the modest growth figures could be attributed to one-off or country-specific factors (e.g. the several-week-long railway strikes in France), it was not before the second half of the year when it became clear that the performance in 2018 would be nowhere near the previous year's one, and the annualized quarterly growth rate slowed to less than 1% by the second half of the year. Based on the currently available data, the moderate performance owes a lot to the core countries, particularly Germany and Italy. Dancing on thin ice, Italy became less worrisome by the end of the year, but its new government still plans a string of fiscal loosening measures, and the resulting increase in public debt is not in sync with the EU's requirements, moreover, investors' confidence in financing the country's debt has wobbled. Although the EU's decision-makers approved the Brexit agreement drafted in November, the House of Commons of the UK Parliament rejected the bill several times, even though EU leaders repeatedly ruled out re-opening talks into the deal. At the end of 2018, the ECB phased out its asset purchase programme and thus launched the second monetary tightening – but seeing the eurozone's growth data, interest rate hikes –previously supposed to take place in the second half of 2019– now seem unlikely, and the ECB will be cautious about further tightening monetary conditions.

The growth rate in the **United States** may have been around 3.0% in 2018, but it is likely to slow in the near future. This is partly because the effect of the tax cut programme, which used to fuel growth, is now fading; besides, the trade war left its mark on the economy's performance, and its resolution is making no progress, despite the on-going negotiations. Thus the USA's import tariffs on Chinese goods worth USD 100 billion remain in place. Following the autumn elections, Republicans retained majority in Senate, but Democrats gained the upper hand in the House of Representatives. It did not take long for the two parties to clash, over the funding of the wall planned on the Mexican border, ultimately resulting in more-than-one-month-long government shutdown.

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

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

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

NOTE 40: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE BANK'S FINANCIALS (in HUF mn) [continued]

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

By Q3 2018, Hungary's accrual-based four-quarter government deficit fell to 1.9% of GDP, thus the 2018 balance may have been around 2.2% of GDP, less than the official target of 2.4%. The central budget received more than HUF 1,000 billion EU funding in the fourth quarter, thus public debt may have shrunk to 71% of GDP by the end of the year.

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

In line with the world's leading central banks, the tightening cycle began in some countries in Central and Eastern Europe (Romania and the Czech Republic). In the second half of 2018, the MNB's communication included multiple changes that pointed towards tightening the extremely loose monetary conditions – but no measures followed them. The MNB's September meeting brought some change, when the central bank announced that, by transforming its monetary policy tools, the MNB is prepared for the gradual and cautious normalization of monetary policy: it abandoned 3M deposit facility and the required reserve became the benchmark tool, ended the MIRS (monetary policy interest rates swap) and the mortgage bond purchase program, but the FX swap volume was not fully wound down. As a new tool, the Funding for Growth fixed scheme was introduced, with an aim to increase the share of fixed-interest rate loans within the SME sector. As the global environment is likely to remain volatile, we expect the CEE region's currency rates to see-saw, but the depreciation pressure on the forint is likely to ease. This January the MNB gave another strong signal, which points toward the beginning of the tightening, but the unpredictability of the external environment may provide reason for putting off normalization. The MNB's most recent forecast is based on 3.5% economic growth and 2.9% consumer price index for 2019.

From 2017 the base of the **Hungarian banking tax** is the adjusted balance sheet total at the actual calendar year minus two years (i.e. for the 2018 banking tax calculation the end-2016 adjusted total assets must be used). Effective from 2017 the applicable upper tax rate has been moderated to 0.21%. The total annual amount of the banking tax payable in 2018 was already booked in one sum in 1Q 2018. From 2018 the bank tax rate further moderated, by 1 bp to 0.20%.

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

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

With respect to **mortgage lending**, one of the most important and spectacular development was the steady and unambiguous rise in the popularity of fixed rate mortgages. At OTP the proportion of fixed rate housing loans (with an interest rate fixation period of at least 5 years) within non-subsidized housing loan applications reached 97% in 4Q 2018, up from around 50% in 2017 as a whole. It was also positive that in the last several months the applications for mortgages with a repricing period of 10 years or more gained further ground: in 4Q 2018 the aggregated volume of applications for loans with fixation period of 10 and 20 years was close to 80% within total fixed rate credits. The above developments were stimulated by the deliberate policies taken by the National Bank of Hungary, through the introduction of the certified consumer-friendly housing loans and the amendments to the PTI rules effective from 1 October 2018. In 4Q 2018 the share of certified customer-friendly mortgages within new fixed rate market-based housing loan applications exceeded 70%.

NOTE 40: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE BANK'S FINANCIALS (in HUF mn) [continued]

As for debt brake rules, the National Bank of Hungary decided to amend the regulation on the **payment-to-income (PTI) ratio**, in order to further promote the safer fixed rate mortgages. Effective from 1 October 2018, in the case of taking out a new HUF denominated mortgage loan the debtor's total monthly debt service cannot exceed certain % of their regular net monthly income, as stipulated in the relevant central bank decree.

According to the decision by the Monetary Council (MC) of the National Bank of Hungary on 21 November 2017 the MC introduced an unconditional interest rate swap (IRS) facility, with 5 and 10 years maturity. Counterparty banks could access the IRS facility on regular tenders from the beginning of January 2018. In line with the fine-tuning of the unconventional policy instruments affecting long-term yields, the on 18 September 2018 MC made a decision to phase out the monetary policy IRS facilities by the end of 2018. The Council set the annual maximum stock of **monetary policy IRS (MIRS)** for 2018 at HUF 1,100 billion.

Until November 2018 – in coordination with the auditor – the initial positive net present value (NPV) gained on MIRS deals was accrued for the whole maturity of MIRS transactions within the net interest income. In December 2018 NBH published guidelines on its website, according to which those swap facilities were unconditional, therefore in NBH's opinion there was no such binding criteria within the conditions that would require the accrual of NPVs.

Taking into consideration the NBH's guidelines, OTP Bank – with the consent of the auditor – decided to book the total initial positive NPVs in one lump sum within its P&L. As a result, in the adjusted P&L structure the total HUF 20.7 billion before tax gain (HUF 18.8 billion after tax) realized in 2018 as a whole was presented in 4Q 2018 within adjustment items on the *Initial NPV gain on the monetary policy interest rate swap (MIRS) deals* line.

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 2018 with total assets of HUF 8,506,188 million and with net profit for the period of HUF 173,442 million. The net profit for the period is allocated as follows: the general reserve must be increased by HUF 17,344 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 3 June 2019 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 2018

IFRS (CONSOLIDATED)

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

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

Budapest, 8 March 2019

OTP BANK Nyrt. 1. elnök-vezérigazgató

Dr. Sándor Csányi
Chairman and Chief Executive Officer

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

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

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

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

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

	Note	Share capital	Capital reserve	Share-based payment reserve	Retained earnings and other reserves[42]	Option reserve	Treasury shares	Total attributable to shareholders'	Non-controlling interest	Total
Balance as at 1 January 2017		**28,000**	**52**	**28,237**	**1,476,657**	**(55,468)**	**(60,121)**	**1,417,357**	**3,292**	**1,420,649**
Net profit for the period		-	-	-	281,142	-	-	281,142	197	281,339
Other Comprehensive Income		-	-	-	(4,920)	-	-	(4,920)	(24)	(4,944)
Total comprehensive income		**-**	**-**	**-**	**276,222**	**-**	**-**	**276,222**	**173**	**276,395**
Share-based payment	*31.*	-	-	3,598	-	-	-	3,598	-	3,598
Dividend for the year 2016		-	-	-	(53,200)	-	-	(53,200)	-	(53,200)
Sale of Treasury shares	*22.*	-	-	-	-	-	10,342	10,342	-	10,342
Treasury shares – loss on sale		-	-	-	(2,839)	-	-	(2,839)	-	(2,839)
Treasury shares – acquisition	*22.*	-	-	-	-	-	(13,510)	(13,510)	-	(13,510)
Payments to ICES holders	*21.*	-	-	-	(1,380)	-	-	(1,380)	-	(1,380)
Balance as at 31 December 2017		**28,000**	**52**	**31,835**	**1,695,460**	**(55,468)**	**(63,289)**	**1,636,590**	**3,465**	**1,640,055**
Effect of transition due to IFRS 9 application		-	-	-	(51,475)	-	-	(51,475)	(127)	(51,602)
Balance as at 1 January 2018		**28,000**	**52**	**31,835**	**1,643,985**	**(55,468)**	**(63,289)**	**1,585,115**	**3,338**	**1,588,453**
Net profit for the period		-	-	-	318,233	-	-	318,233	89	318,322
Other Comprehensive Income		-	-	-	(13,420)	-	-	(13,420)	(223)	(13,643)
Total comprehensive income		**-**	**-**	**-**	**304,813**	**-**	**-**	**304,813**	**(134)**	**304,679**
Purchase of non-controlling interest		-	-	-	-	-	-	-	(752)	(752)
Share-based payment	*31.*	-	-	3,797	-	-	-	3,797	-	3,797
Dividend for the year 2017		-	-	-	(61,320)	-	-	(61,320)	-	(61,320)
Correction due to MRP		-	-	-	156	-	-	156	-	156
Sale of Treasury shares	*22.*	-	-	-	-	-	21,814	21,814	-	21,814
Treasury shares - loss on sale	*22.*	-	-	-	(2,390)	-	-	(2,390)	-	(2,390)
Treasury shares - acquisition	*22.*	-	-	-	-	-	(26,524)	(26,524)	-	(26,524)
Payments to ICES holders	*21.*	-	-	-	(1,256)	-	-	(1,256)	-	(1,256)
Balance as at 31 December 2018		**28,000**	**52**	**35,632**	**1,883,988**	**(55,468)**	**(67,999)**	**1,824,205**	**2,452**	**1,826,657**

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

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

	Note	2018	2017
OPERATING ACTIVITIES			
Net profit for the period (attributable to the owners of the company)		**318,233**	**281,142**
Net accrued interest		(2,434)	28,916
Dividend income		(5,736)	(4,152)
Depreciation and amortization	*11.*	51,475	48,988
Goodwill impairment	*11.*	5,962	504
Release of loss allowance on securities	*7.,10.*	(608)	(10)
Loss allowance on loans and placements	*8., 24.*	39,287	40,848
Loss allowance on investments	*9.*	1,232	184
Loss allowance / (Release of loss allowance) / on investment properties	*12.*	244	(71)
Impairment on tangible and intangible assets		2,262	-
Loss allowance on other assets	*13.*	944	8,213
(Release of provision) / Provision on off-balance sheet commitments and contingent liabilities	*18.*	(1,841)	15,957
Share-based payment	*2.,31.*	3,797	3,598
Unrealized losses on fair value change of securities held for trading		9,128	18,335
Unrealized (gains) / losses on fair value change of derivative financial instruments		(29,525)	11,966
Net changes in assets and liabilities in operating activities			
Net decrease / (increase) in financial assets at fair value through profit or loss	*6.*	178,542	(89,786)
Net increase in loans at amortized cost before loss allowance for loans and in loans at fair value	*8.*	(1,166,242)	(456,001)
Net increase in other assets before loss allowance	*13.*	(26,857)	(10,680)
Net increase in deposits from customers	*15.*	1,054,945	583,081
Net increase / (decrease) in other liabilities	*18.*	101,877	(75,769)
Net (increase) / decrease in compulsory reserves at the National Banks	*4.*	(329,936)	99,391
Income tax paid		(17,377)	(14,797)
Net Cash Provided by Operating Activities		**187,372**	**489,857**

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

	Note	2018	2017
INVESTING ACTIVITIES			
Net decrease in placement with other banks before loss allowance for placements	5.	42,811	147,969
Purchase of securities at fair value through other comprehensive income	7.	(1,644,093)	(955,382)
Proceeds from sale of securities at fair value through other comprehensive income	7.	1,896,981	552,351
Net increase in investments in associates	9.	(4,324)	(682)
Net (increase) / decrease in investments in other companies	9.	(1,984)	8,762
Dividends received		5,490	3,739
Purchase of securities at amortized cost	10.	(2,615,632)	(1,166,466)
Redemption of securities at amortized cost	10.	2,188,898	971,786
Purchase of property, equipment and intangible assets	11.	(104,199)	(131,028)
Proceeds from disposals of property, equipment and intangible assets	11.	37,425	22,383
Net (increase) / decrease in investment properties before loss allowance	12.	(2,974)	5,060
Net (increase) / decrease in advances for investments included in other assets	13.	(21)	8
Net cash paid for acquisition	33.	-	(128,588)
Net Cash Used in Investing Activities		**(201,622)**	**(670,088)**
FINANCING ACTIVITIES			
Net decrease in amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	14.	(79,905)	(168,108)
Cash received from issuance of securities	16.	224,413	184,636
Cash used for redemption of issued securities	16.	(57,401)	(81,886)
Increase / (Decrease) in subordinated bonds and loans	19.	5,733	(1,250)
Payments to ICES holders	21.	(1,256)	(1,380)
Sale of Treasury shares	22.	7,138	10,342
Purchase of Treasury shares	22.	(14,238)	(16,349)
Dividends paid	21.	(61,164)	(53,191)
Net Cash Provided by / (Used in) Financing Activities		**23,320**	**(127,186)**
Net increase / (decrease) in cash and cash equivalents		**9,070**	**(307,417)**
Cash and cash equivalents at the beginning of the period		**800,689**	**1,128,610**
Foreign currency translation		10,220	(20,504)
Cash and cash equivalents at the end of the period	4.	**819,979**	**800,689**

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 1: ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS

1.1. General information

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

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

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

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

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

	2018	2017
Domestic and foreign private and institutional investors	98%	98%
Employees	1%	1%
Treasury shares	1%	1%
Total	**100%**	**100%**

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

The Bank and its subsidiaries ("Entities of the Group", together the "Group") provide a full range of commercial banking services through a wide network of 1,411 branches. The Group has operations in Hungary, Bulgaria, Russia, Ukraine, Croatia, Romania, Slovakia, Serbia and Montenegro.

The number of employees at the Group:

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

1.2. Basis of Accounting

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

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

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

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

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

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

1.2. Basis of Accounting [continued]

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

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

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

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

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

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

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

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

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

1.2. Basis of Accounting [continued]

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

Implementation of IFRS 16

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

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

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

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

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

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

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

Transition

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

The Group applies the following practical expedients available:

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

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

1.2. Basis of Accounting [continued]

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

Impact of IFRS 16 on the consolidated financial statements

IFRS 16 implementation (Project)

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

Stage I: Analysis of contracts, data collection

During the analysis of all executed agreements the classification was made, whether it is a purchase of services, or a lease. The analysis covered all the relevant agreements– so the Group has not applied the so called "grandfathering exemption" - according to IFRS16.C3 despite their current classification and the assessment resulted in no different identification of the leases. Furthermore to calculate the value of the right-of-use assets and lease liabilities the collection of all the relevant information was performed.
The Group will present as at 1 January 2019 the following types of right-of-use assets in the statement of financial position:

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

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

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

Stage II: Evaluation of contracts, Calculations

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

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

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

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

Description of adjustments due to implementation of IFRS 16

a) Recognition of lease liabilities

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

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

1.2. Basis of Accounting [continued]

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

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

a) Recognition of lease liabilities [continued]

At their date of initial recognition, lease payments contained in the measurement of lease liabilities comprise the following types of payments for the right to use the underlying asset for the life of the lease:
- fixed lease payments less any lease incentives,
- variable lease payments that depend on an index or a rate,
- amounts expected to be payable by the lessee under residual value guarantees,
- the exercise price of a purchase option, if it is reasonably certain that the option will be exercised, and
- payment of contractual penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

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

b) Recognition of right-of-use assets

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

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

c) Application of estimates

The implementation of IFRS 16 requires the making of certain estimates and calculations which effect the measurement of financial lease liabilities and of right-of-use assets. These include among others:
- determining which agreements are subject to IFRS 16,
- determining the lease term of such agreements (including for agreements with unspecified lives or which may be prolonged),
- determining the interest rates to be applied for the purpose of discounting future cash flows,
- determining depreciation rates.

Impact on the statement of consolidated financial position

The impact of implementing IFRS 16 on the recognition of additional financial liabilities and respective right-of-use assets was estimated on the basis of agreements in force at the Group as at 31 December 2018.
The Group presents the following right-of-use assets in the statement of consolidated financial position as at 1 January 2019:

Estimated financial impact

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

The initial application would have also impact on the Consolidated Statement of Comprehensive Income and Consolidated Statement of Cash-flows however the estimated effect is considered as immaterial.
Average weighted amount of the implicit interest rate/incremental borrowing rate applied as at 1 January 2019 to recognize the lease liabilities: ~3.68 %.

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

1.2. Basis of Accounting [continued]

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

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

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 3 "Business Combinations"** - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period),
- **Amendments to IFRS 10 "Consolidated Financial Statements"** and **IAS 28 "Investments in Associates and Joint Ventures"** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - Definition of Material (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IAS 19 "Employee Benefits"** - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to various standards "Improvements to IFRSs (cycle 2015-2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).

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

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

The adoption of the these new standards, amendments to the existing Standards and new interpretations would have no significant impact on the Consolidated Financial Statements in the period of initial application.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of Presentation

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

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

2.2. Foreign currency translation

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

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

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

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.2. Foreign currency translation [continued]

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

2.3. Principles of consolidation

Included in these Consolidated Financial Statements are the accounts of those subsidiaries in which the Bank exercises control. The list of the major fully consolidated subsidiaries, the percentage of issued capital owned by the Bank and the description of their activities is provided in Note 34. However, certain subsidiaries in which the Bank holds a controlling interest have not been consolidated because the effect of consolidating such companies is not material to the Consolidated Financial Statements as a whole (see Note 2.13.).
As the ultimate parent, the Bank is preparing consolidated financial statements of the Group.

2.4. Accounting for acquisitions

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

If the Group loses control of a subsidiary, derecognizes the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost and recognizes any difference as a gain or loss on the sale attributable to the parent in Statement of Profit or Loss.
Goodwill acquired in a business combination is tested for impairment annually or more frequently if events or changes in circumstances indicate. The goodwill is allocated to the cost generating units that are expected to benefit from the synergies of the combinations.
The Group calculates the fair value based on discounted cash-flow model. The 3 year period explicit cash-flow model serves as a basis for the impairment test by which the Group defines the impairment need on goodwill based on the strategic factors and financial data of its cash-generating units.

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

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

2.5. Securities at amortized cost

At reporting dates of Consolidated Financial Statements, securities that the Group holds for contractual cash-flow purposes, and contractual terms of these securities give rise to cash flows that are solely payment of principal and interest on the principal amount outstanding are measured at amortized cost.
The amortisation of any discount or premium on the acquisition of a security at amortized cost is aggregated with other investment income receivable over the term of the investment so that the revenue recognized in each period represents a constant yield on the investment. Securities at amortised cost are accounted for on a trade date basis.

Such securities comprise mainly securities issued by the Hungarian and foreign Governments and corporate bonds.

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

2.6. Financial assets at fair value through profit or loss

2.6.1. Securities held for trading

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

2.6.2. Derivative financial instruments

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

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

Foreign currency contracts

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

Foreign exchange swaps and interest rate swaps

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

[1] First In First Out

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

2.6.2. Derivative financial instruments [continued]

Cross-currency interest rate swaps

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

Equity and commodity swaps

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

Forward rate agreements (FRA)

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

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

Foreign exchange options

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

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.8. Offsetting

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

2.9. Embedded derivatives

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

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

2.10. Securities at fair value through other comprehensive income

Securities at fair value through other comprehensive income are held within a business model whose objective is achieved by both collecting of contractual cash flows and selling securities. Furthermore contractual terms of these securities give rise on specified dates to cash flows that are solely payment of principal and interest on the principal amount outstanding

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

Such securities consist of Hungarian and foreign government bonds, corporate bonds, mortgage bonds, discounted Treasury bills and other securities.

The Group has elected to present in the Statement of Other Comprehensive Income changes of fair value of those equity instruments which are neither held for trading nor recognised under IFRS 3.

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

In some cases the Group made an irrevocable election at initial recognition for certain equity instruments to present subsequent changes in fair value of these securities in the consolidated other comprehensive income instead of in profit or loss.

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

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

[1] First In First Out

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

Those Loans and placements with other banks that are accounted at amortized cost, stated at the principal amounts outstanding (including accrued interest), net of allowance for loan or placement losses, respectively. Transaction fees and charges should adjust the carrying amount at initial recognition and be included in effective interest calculation.
Loans and placements with other banks are derecognised when the contractual rights to the cash-flows expire or they are transferred. When a financial asset is derecognised the difference of the carrying amount and the consideration received is recognised in the profit or loss. When a financial asset is derecognised the difference of the carrying amount and the consideration received is recognised in the profit or loss. When the contractual cash flows of a financial asset are modified and the modification does not result in the derecognition of the financial asset the Bank recalculate the gross carrying amount of the financial asset by discounting the expected future cash flows with the original effective interest rate of the asset. The difference between the carrying amount and the present value of the expected cash flows is recognised as a modification gain or loss in the profit or loss.
Interest and amortised cost are accounted using effective interest rate method. When a borrower is unable to meet payments as they fall due or, in the opinion of the Management, there is an indication that a borrower may be unable to meet payments as they fall due, all unpaid penalty interest becomes impaired.

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

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

Loss allowance for loans and placements with other banks represent Management assessment for potential losses in relation to these activities.
Loss allowance for loans and placements with other banks is recognised by the Group based on the expected credit loss model in accordance with IFRS 9. Based on the three stage model loss allowance is recognised at an amount equal to 12-month expected credit loss from the initial recognition. On financial assets with significantly increased credit risk or credit impaired financial assets (based on objective evidences) loss allowance is recognised in amount of lifetime expected credit loss.
In case of purchased or originated credit impaired financial assets loss allowance is recognised in amount of lifetime expected credit loss since initial recognition. Impairment gain is recognised if lifetime expected credit loss for purchased or originated credit impaired financial assets at measurement date are less than the estimated credit loss at initial recognition.

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss shall be reversed by adjusting an loss allowance account. As a result of the reversal the carrying amount shall not exceed the amortised cost, which would be at the date of reversal, if no loss allowance had been made previously. If a financial asset, which previously classified in the first stage, classified subsequently in the second or third stage than loss allowance is adjusted to lifetime expected credit loss. If a financial asset, which previously classified in the second or third stages, classified subsequently in the first stage than loss allowance is adjusted to level of 12 month expected credit.

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote. The loan is written off against the related account "Loss allowance on loans and placements" in the Consolidated Statement of Profit or Loss.
The Group applies partial or full write-off for loans based on the definitions and prescriptions of financial instruments in accordance with IFRS 9. If the Group has no reasonable expectations regarding a financial asset (loan) to be recovered, it will be written off partially or fully at the time of emergence. A loan will be written off if it is matured or was terminated by the Group.

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

2.12. Sale and repurchase agreements, security lending

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on Statement of Financial Position and the consideration received is recorded in Other liabilities or Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks. Conversely, debt or equity securities purchased under a commitment to resell are not recognized in the Statement of Financial Position and the consideration paid is recorded either in Placements with other banks or Deposits from customers. Interest is accrued based on effective interest method evenly over the life of the repurchase agreement.
In the case of security lending transactions the Group doesn't recognize or derecognize the securities because believes that the transferor retains substantially all the risks and rewards of the ownership of the securities. Only a financial liability or financial receivable is recognized for the consideration amount.

2.13. Associates and other investments

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

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

2.14. Property and equipment, Intangible assets

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

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

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

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

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

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

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

2.15. Financial liabilities

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

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

2.16. Leases

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

The Group as a lessor

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

The Group as a lessee

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

Payments made under operating leases are charged to the Consolidated Statement of Profit or Loss on a straight-line basis over the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.
Applying rules for lessee changed after 1 January 2019 in accordance with IFRS 16. (See 1.2.2.)

2.17. Investment properties

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

2.18. Treasury shares

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

2.19. Interest income and interest expense

Interest income and expenses are recognized in profit or loss in the period to which they relate, using the effective interest rate method. The time-proportional interest income of derivative financial instruments is calculated without using the effective interest method and the positive fair value adjustment of interest rate swaps are also included in interest income. Interest from loans and deposits are accrued on a daily basis. Interest income and expenses include relevant transaction costs and the amortisation of any discount or premium between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.
The Group recognizes interest income when assumes that the interest associated with the transaction will flow to the Group and the amount of the revenue can be reasonably measured. All interest income and expense recognized are arising from loans, placements with other banks, securities at fair value through other comprehensive income, securities at amortized cost and amounts due to banks, deposits from customers, liabilities from issued securities, subordinated bond and loans are presented under these lines of financial statements.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.20. Fees and Commissions

Fees and commissions are recognized using the effective interest method referring to loss allowances of IFRS 9, when they relate and have to be included in amortized cost model. Certain fees and commissions that are not involved in the amortized cost model are recognized in the Consolidated Statement of Profit or Loss on an accrual basis based on IFRS 15 Revenue from contracts with customers (see more details in Note 25).

2.21. Dividend income

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

2.22. Income tax

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

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

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

2.23. Off-balance sheet commitments and contingent liabilities

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

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

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

2.24. Share-based payment and employee benefit

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

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

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

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

2.25. Consolidated Statement of Cash-flows

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

2.26. Segment reporting

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

2.27. Comparative figures

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.27. Comparative figures [continued]

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

IFRS 9

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

Classifications by IAS 39	Classifications by IFRS 9	Opening balance according to IAS 39 as at 31 December 2017	Reclassification	Remeasurement due to loss allowance Stage 1	Stage 2	Stage 3[1]	Opening balance according to IFRS 9 as at 1 January 2018
Placements with other banks	**Placements with other banks**	**462,180**	**-**	**(269)**	**-**	**-**	**461,911**
Held for trading securities	Held for trading securities at fair value through profit or loss	259,263	(3,579)	-	-	-	255,684
	Securities mandatorily at fair value through profit or loss	-	29,206	-	-	-	29,206
Available for sale securities	Securities at fair value through other comprehensive income	2,174,718	(34,399)	(2,885)	-	-	2,137,434
Securities held-to-maturity	Securities at amortized cost	1,310,331	8,933	(2,256)	-	(5)	1,317,003
Securities total	**Securities total**	**3,744,312**	**161**	**(5,141)**	**-**	**(5)**	**3,739,327**
Loans at amortized cost	Loans at amortized cost	6,987,834	(21,844)	(9,436)	(20,265)	(19,674)	6,916,615
	Loans at fair value	-	23,251	-	-	-	23,251
Loans total	**Loans total**	**6,987,834**	**1,407**	**(9,436)**	**(20,265)**	**(19,674)**	**6,939,866**
Amounts due to banks	Amounts due to banks	472,068	(20,011)	-	-	-	452,057
	Financial liabilities at fair value through profit or loss	-	21,476	-	-	-	21,476
	Liabilities total	**472,068**	**1,465**	**-**	**-**	**-**	**473,533**
Provision for loan commitmer and financial guarantees	Provision for loan commitments and financial guarantees	**15,356**	**-**	**1,816**	**1,181**	**1,967**	**20,320**

IFRS 15

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

[1] Stage 3 includes POCI category too.

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

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

3.1. Loss allowances on financial instruments

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

3.2. Valuation of instruments without direct quotations

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

3.3. Provisions

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

3.4. Impairment on goodwill

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

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

3.5. Business model

The financial assets held by the Group are classified into three categories depending on the business model within the financial assets are managed.
Business model whose objective is to hold financial assets in order to collect contractual cash flows. Within this business model the Group manages mainly loans and advances and long term securities and other financial assets.
Business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Within this business model the Group only manages securities.
Business model whose objective is to achieve gains in a short term period. Within this business model the Group manages securities and derivative financial instrument.

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

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

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

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

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

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

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

Interest conditions of placements with other banks:

	2018	2017
In HUF	(1.0)% - 3.84%	(0.5)% - 3.84%
In foreign currency	(2.28)% - 13.69%	(20.0)% - 14.9%

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

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

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

Positive fair value of derivative financial assets held for trading

	2018	2017
Interest rate swaps held for trading	44,120	33,377
Foreign exchange swaps held for trading	31,994	18,047
CCIRS and mark-to-market CCIRS[1] held for trading	12,417	16,976
Foreign exchange forward contracts held for trading	2,502	4,998
Other derivative transactions held for trading	12,372	11,756
	103,405	**85,154**
Total	**181,356**	**344,417**

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

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

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

	2018	2017
Denominated in HUF (%)	19.7%	55.0%
Denominated in foreign currency (%)	80.3%	45.0%
Total	**100.0%**	**100.0%**

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

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

	2018	2017
Interest rates on securities held for trading	0.01% - 7.5%	0.01% - 9.25%
Average interest rates on securities held for trading	2.25%	2.20%

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

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

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

	2018	2017
Securities at fair value through other comprehensive income		
Government bonds	1,357,248	1,703,665
Discounted Treasury bills	331,880	223,238
Mortgage bonds	81,823	-
Corporate bonds	61,421	174,742
From this:		
Listed securities:		
In HUF	-	*84,048*
In foreign currency	*37,113*	*49,737*
	37,113	*133,785*
Non-listed securities:		
In HUF	*22,885*	*32,598*
In foreign currency	*1,423*	*8,359*
	24,308	*40,957*
Other securities	-	545
Subtotal	**1,832,372**	**2,102,190**

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

	2018	2017
Non-trading equity instruments measured at fair value through other comprehensive incomes		
Listed securities:		
In HUF	-	*1,472*
In foreign currency	*5,358*	*76*
	5,538	*1,548*
Non-listed securities:		
In HUF	*576*	*19,419*
In foreign currency	*24,729*	*29,186*
	25,305	*48,605*
Subtotal	**30,663**	**50,153**
Accrued interest	20,814	22,745
Loss allowance on securities at fair value through other comprehensive income	-	(370)
Securities at fair value through other comprehensive income / Available-for-sale securities	**1,883,849**	**2,174,718**

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

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

An analysis of government bonds by currency (%):

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

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

	2018	2017
Average interest rates securities at fair value through other comprehensive income / available-for-sale denominated in HUF	1.69%	1.56%
Average interest rates on securities at fair value through other comprehensive income / available-for-sale denominated in foreign currency	2.29%	2.63%

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

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

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

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

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

Certain securities are hedged against interest rate risk. See Note 28.4.

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

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

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

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

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

Interest rates of the loan portfolio are as follows:

	2018	2017
Short-term loans denominated in HUF	0.0% - 37.45%	0.0% - 37.45%
Long-term loans denominated in HUF	0.01% - 38.98%	0.0% - 37.5%
Short-term loans denominated in foreign currency	(0.64)% - 90.0%	(0.67)% - 59.9%
Long-term loans denominated in foreign currency	(0.64)% - 90.0%	(0.67)% - 59.0%

	2018	2017
Average interest rates on loans denominated in HUF	6.87%	7.55%
Average interest rates on loans denominated in foreign currency	7.05%	7.66%

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

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

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

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

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

NOTE 9: A SSOCIATES AND OTHER INVESTMENTS (in HUF mn)

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

[1] See details in Note 2.11.

NOTE 9: A SSOCIATES AND OTHER INVESTMENTS (in HUF mn)

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

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

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

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

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

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

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

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

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

	2018	2017
Interest rates of securities at amortized cost with variable interest	-	1.4% - 4.45%
Interest rates of securities at amortized cost with fixed interest	0.5% - 18.0%	1.39% - 14.5%

	2018	2017
Average interest rates on securities at amortized cost	3.98%	4.72%

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

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

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

For the year ended 31 December 2018

Cost	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Total
Balance as at 1 January	**302,057**	**226,513**	**174,585**	**20,033**	**723,188**
Additions	42,443	30,452	33,878	46,009	**152,782**
Foreign currency translation differences	(3,210)	3,403	1,200	321	**1,714**
Disposals	(18,030)	(20,733)	(14,660)	(43,483)	**(96,906)**
Change in consolidation	9	4	37	1	51
Balance as at 31 December	**323,269**	**239,639**	**195,040**	**22,881**	**780,829**

Depreciation and Amortization	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Total
Balance as at 1 January	**125,988**	**58,146**	**125,664**	**-**	**309,798**
Charge for the period (without goodwill impairment)	27,245	7,080	17,150	-	**51,475**
Goodwill impairment	5,962	-	-	-	**5,962**
Foreign currency translation differences	732	5,229	854	-	**6,815**
Disposals	(5,577)	(2,233)	(8,187)	-	**(15,997)**
Change in consolidation scope	8	1	22	-	31
Impairment	**2,200**	**28**	**33**	**-**	**2,261**
Balance as at 31 December	**156,558**	**68,251**	**135,536**	**-**	**360,345**
Carrying value					
Balance as at 1 January	**176,069**	**168,367**	**48,921**	**20,033**	**413,390**
Balance as at 31 December	**166,711**	**171,388**	**59,504**	**22,881**	**420,484**

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

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

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

	Goodwill
Gross balance as at 1 January	**101,489**
Additions	-
Foreign currency translation difference	(3,761)
Disposals	-
Balance as at 31 December	**97,728**

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

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

For the year ended 31 December 2018 [continued]

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

Carrying value	Goodwill
Balance as at 1 January	100,976
Balance as at 31 December	91,766

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

List of units	HUF mn
JSC "OTP Bank" (Russia)	38,048
DSK Bank EAD	28,541
OTP banka Hrvatska d.d.	18,664
OTP Bank Romania S.A.	6,388
Other[1]	125
Total	**91,766**

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

On the basis of the opinion of the Bank's Management as at 31 December 2018 impairment test was prepared where a three-year cash-flow model was applied with an explicit period between 2019-2021. The basis for the estimation was the financial actual figures for November 2018, while for the three-year explicit period the Bank applied the prognosis for year 2018 accepted by the Management Committee of the subsidiaries and on the basis of this the prepared medium-term (2019-2021) forecasts. When the Bank prepared the calculations for the period 2019-2021, it considered the actual worldwide economic situations, the expected economic growth for the following years, their possible effects on the financial sector, the plans for growing which result from these, and the expected changes of the mentioned factors.

Present value calculation with the FCF method

The Bank calculated the expected cash-flow for the given period based on the expected after tax profit of the companies. For calculating the discount factor as risk free rates in case of OTP Bank JSC (Ukraine) the local interbank interest rate in foreign currency with a period of one year was applied, while in case of the other subsidiaries the ten-year local government bonds in foreign currency or swap yields were considered as presented in the actual macro forecasts. The Bank calculated risk premiums on the basis of information from the country risk premiums that are published on damodaran.com, which were modified with CDS spread in case of OTP Banka Slovensko a.s and Crnogorska komercijalna banka a.d., since according to the Bank's assumption the risk free interest rate includes the country-dependent risks in an implicit way.

The growth rate in the explicit period is the growth rate of the profit after tax adjusted by the interest rate of the cash and subordinated loans. The supposed growth rates for the periods of residual values reflect the long-term economic expectations in case of every country.

The values of the subsidiaries in the FCF method were then calculated as the sum of the discounted cash-flows of the explicit period, the present value of the terminal values and the initial free capital assuming an effective capital structure.

Present value calculation with the EVA method

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

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

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

For the year ended 31 December 2018 [continued]

Summary of the impairment test for the year ended 31 December 2018

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

For the year ended 31 December 2017

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

Depreciation and Amortization	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Total
Balance as at 1 January	**138,185**	**54,026**	**126,138**	**-**	**318,349**
Charge for the year (without goodwill impairment)	27,081	7,400	14,507	-	**48,988**
Goodwill impairment	504	-	-	-	**504**
Foreign currency translation differences	(1,067)	(555)	(1,155)	-	**(2,777)**
Disposals	(38,715)	(2,725)	(13,826)	-	**(55,266)**
Balance as at 31 December	**125,988**	**58,146**	**125,664**	**-**	**309,798**
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
Gross balance as at 1 January	**104,282**
Additions	-
Foreign currency translation difference	(2,793)
Disposals	-
Balance as at 31 December	**101,489**

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

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

For the year ended 31 December 2017 [continued]

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

Carrying value	Goodwill
Balance as at 1 January	104,282
Balance as at 31 December	100,976

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

List of units	HUF mn
JSC “OTP Bank” (Russia)	42,182
DSK Bank EAD	28,541
OTP banka Hrvatska d.d.	18,004
OTP Bank Romania S.A.	6,162
Monicomp Ltd.	5,733
Other[1]	354
Total	**100,976**

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

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

NOTE 12: INVESTMENT PROPERTIES (in HUF mn)

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

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

The applied depreciation and amortization keys were the following:

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

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

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

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

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

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

Impairment	2018	2017
Balance as at 1 January	**8,080**	**9,993**
Impairment for the period	451	298
Release of impairment for the period	(207)	(369)
Use of impairment	(4,593)	(1,789)
Foreign currency translation difference	271	(53)
Closing balance	**4,002**	**8,080**

Carrying values	2018	2017
Balance as at 1 January	**35,385**	**29,446**
Balance as at 31 December	**38,115**	**35,385**
Fair values	**44,616**	**40,258**

Income and expenses	2018	2017
Rental income	**2,945**	**2,038**
Direct operating expenses of investment properties – income generating	**75**	**104**
Direct operating expenses of investment properties – non income generating	**9**	**8**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	2018	2017
Within one year		
In HUF	(15.0)% - 2.67%	(18.0)% - 0.9%
In foreign currency	(0.8)% - 21.5%	(0.6)% - 7.2%
Over one year		
In HUF	0.0% - 2.67%	0.0% - 3.8%
In foreign currency	0.0% - 21.5%	(0.27)% - 16.3%

	2018	2017
Average interest rates on amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks denominated in HUF	2.21%	1.90%
Average interest rates on amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks denominated in foreign currency	1.71%	1.79%

NOTE 15: DEPOSITS FROM CUSTOMERS (in HUF mn)

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

Interest rates on deposits from customers are as follows:

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

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

	2018	2017
Average interest rates on deposits from customers denominated in HUF	0.11%	0.18%
Average interest rates on deposits from customers denominated in foreign currency	0.75%	0.80%

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

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

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

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

Interest rates on liabilities from issued securities are as follows:

	2018	2017
Issued securities denominated in HUF	0.2% - 9.48%	0.2% - 9.48%
Issued securities denominated in foreign currency	0.6% - 7.0%	0.0% - 8.1%

	2018	2017
Average interest rates on issued securities denominated in HUF	2.33%	3.23%
Average interest rates on issued securities denominated in foreign currency	1.66%	0.55%

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

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

	Name	Date of issue	Maturity	Nominal value (in HUF mn)	Interest conditions (actual interest rate in % p.a.)		Hedged
1	OTP 2019/Ax	25/06/2009	01/07/2019	211	indexed	NaN	hedged
2	OTP 2019/Bx	05/10/2009	14/10/2019	286	indexed	NaN	hedged
3	OTP 2019/Cx	14/12/2009	20/12/2019	238	indexed	NaN	hedged
4	OTP 2019/Dx	22/03/2013	21/03/2019	3,470	indexed	NaN	hedged
5	OTP 2019/Ex	28/06/2013	24/06/2019	2,812	indexed	0.60	hedged
6	OTP 2020/Ax	25/03/2010	30/03/2020	251	indexed	NaN	hedged
7	OTP 2020/Bx	28/06/2010	09/07/2020	267	indexed	NaN	hedged
8	OTP 2020/Cx	11/11/2010	05/11/2020	176	indexed	NaN	hedged
9	OTP 2020/Dx	16/12/2010	18/12/2020	177	indexed	NaN	hedged
10	OTP 2020/Ex	18/06/2014	22/06/2020	3,268	indexed	0.70	hedged
11	OTP 2020/Fx	10/10/2014	16/10/2020	2,867	indexed	0.20	hedged
12	OTP 2020/Gx	15/12/2014	21/12/2020	2,493	indexed	0.30	hedged
13	OTP 2021/Ax	01/04/2011	01/04/2021	235	indexed	NaN	hedged
14	OTP 2021/Bx	17/06/2011	21/06/2021	264	indexed	NaN	hedged
15	OTP 2021/Cx	19/09/2011	24/09/2021	241	indexed	NaN	hedged
16	OTP 2021/Dx	21/12/2011	27/12/2021	285	indexed	NaN	hedged
17	OTP 2022/Ax	22/03/2012	23/03/2022	229	indexed	NaN	hedged
18	OTP 2022/Bx	18/07/2012	18/07/2022	201	indexed	1.70	hedged
19	OTP 2022/Cx	29/10/2012	28/10/2022	227	indexed	1.70	hedged
20	OTP 2022/Dx	28/12/2012	27/12/2022	280	indexed	1.70	hedged
21	OTP 2023/Ax	22/03/2013	24/03/2023	353	indexed	1.70	hedged
22	OTP 2023/Bx	28/06/2013	26/06/2023	240	indexed	0.60	hedged
23	OTP 2024/Ax	18/06/2014	21/06/2024	241	indexed	1.30	hedged
24	OTP 2024/Bx	10/10/2014	16/10/2024	324	indexed	0.70	hedged
25	OTP 2024/Cx	15/12/2014	20/12/2024	272	indexed	0.60	hedged
26	OTP 2020/RF/A	12/07/2010	20/07/2020	2,068	indexed	NaN	hedged
27	OTP 2020/RF/B	12/07/2010	20/07/2020	1,203	indexed	NaN	hedged
28	OTP 2020/RF/C	11/11/2010	05/11/2020	2,485	indexed	NaN	hedged
29	OTP 2021/RF/A	05/07/2011	13/07/2021	2,361	indexed	NaN	hedged
30	OTP 2021/RF/B	20/10/2011	25/10/2021	2,534	indexed	NaN	hedged
31	OTP 2021/RF/C	21/12/2011	30/12/2021	464	indexed	NaN	hedged
32	OTP 2021/RF/D	21/12/2011	30/12/2021	323	indexed	NaN	hedged
33	OTP 2021/RF/E	21/12/2011	30/12/2021	58	indexed	NaN	hedged
34	OTP 2022/RF/A	22/03/2012	23/03/2022	1,804		1.70	hedged
35	OTP 2022/RF/B	22/03/2012	23/03/2022	625		1.70	hedged
36	OTP 2022/RF/C	28/06/2012	28/06/2022	166		1.70	hedged
37	OTP 2022/RF/D	28/06/2012	28/06/2022	222		1.70	hedged
38	OTP 2022/RF/E	29/10/2012	31/10/2022	620		1.70	hedged
39	OTP 2022/RF/F	28/12/2012	28/12/2022	468		1.70	hedged
40	OTP 2023/RF/A	22/03/2013	24/03/2023	650		1.70	hedged
41	OJB 2019/I	17/03/2004	18/03/2019	31,516	9.48	fixed	
42	OJB 2019/II	31/05/2011	18/03/2019	1,093	9.48	fixed	
43	OJB 2020/I	19/11/2004	12/11/2020	5,503	9.0	fixed	
	Subtotal			**74,071**			

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

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

	Name	Date of issue	Maturity	Nominal value (in HUF mn)	Interest conditions (actual interest rate in % p.a.)		Hedged
44	OJB 2020/II	31/05/2011	12/11/2020	1,486	9.0	fixed	
45	OJB 2021/I	15/02/2017	27/10/2021	114,000	2.0	fixed	
46	OJB 2023/I	05/04/2018	24/11/2023	43,600	1.75	fixed	
47	OJB 2024/A	17/09/2018	20/05/2024	49,307	0.68	floating	
48	OJB 2024/B	18/09/2018	24/05/2024	36,425	0.68	floating	
49	OJB 2024/C	10/10/2018	24/10/2024	91,000	2.50	fix	
50	Other			226			
	Subtotal			**336,044**			
	Subtotal issued securities in HUF			**410,115**			
	Unamortized premium			(2,573)			
	Fair value adjustment			1,820			
	Total issued securities in HUF			**409,362**			

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

	Name	Date of issue	Maturity	Type of FX	Nominal value (FX mn)	Nominal value (HUF mn)	Interest conditions (actual interest rate in % p.a.)		Hedged
1	OTP_VK_USD_1_2019/I	16/02/2018	16/02/2019	USD	3.04	855	2.51	floating	
2	OTP_VK_USD_1_2019/II	29/03/2018	29/03/2019	USD	2.83	796	2.60	floating	
3	OTP_VK_USD_1_2019/III	18/05/2018	18/05/2019	USD	2.99	839	2.26	floating	
4	OTP_VK_USD_1_2019/IV	28/06/2018	28/06/2019	USD	2.98	838	2.31	floating	
5	OTP_VK_USD_1_2019/V	06/08/2018	06/08/2019	USD	0.85	238	1.00	indexed	
6	OTP_VK_USD_1_2019/VI	04/10/2018	04/10/2019	USD	2.07	581	1.00	floating	
7	OTP_VK_USD_1_2019/VII	15/11/2018	15/11/2019	USD	0.89	250	1.00	floating	
8	OTP_VK_USD_1_2019/VIII	20/12/2018	20/12/2019	USD	1.50	420	1.00	floating	
9	Other[1]					321			
	Subtotal issued securities in FX					**5,138**			
	Unamortized premium					(1)			
	Fair value adjustment					-			
	Total issued securities in FX					**5,137**			
	Accrued interest					3,467			
	Total issued securities					**417,966**			

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

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

Hedge accounting

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

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

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

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

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

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

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

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

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

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

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

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

[2] See Note 27.

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

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

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

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

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

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

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

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

	2018	2017
Over one year:		
In foreign currency	81,429	76,028
Total	**81,429**	**76,028**

Types of subordinated bonds and loans	**2018**	**2017**
Debt securities issued	76,627	76,020
Deposits	4,802	8
Total	**81,429**	**76,028**

Interest rates on subordinated bonds and loans are as follows:

	2018	2017
Denominated in foreign currency	2.68% - 5.00%	2.67%

	2018	2017
Average interest rates on subordinated bonds and loans	2.76%	2.88%

Subordinated bonds and loans can be detailed as follows:

Type	Nominal value	Date of issuance	Date of maturity	Issue price	Interest conditions	Interest rate as at 31 December 2018
Subordinated bond	EUR 236.7 million	07/11/2006	Perpetual	99.375%	Three-month EURIBOR + 3%, variable after year 10 (payable quarterly)	2.683%
Subordinated loan	USD 17.0 million	05/06/2018	05/06/2025	100.00%	Bullet repayment, once at the end of the loan agreement	5.00%

NOTE 20: SHARE CAPITAL (in HUF mn)

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

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

These Consolidated Financial Statements are subject to approval by the Shareholders in the Annual General Meeting in April 2019. In 2018 the Bank paid dividends of HUF 61,320 million from the profit of the year 2017, which meant HUF 219 dividend per share payable to the shareholders. In 2019 dividends of HUF 61,320 million are expected to be proposed by the Management from the profit of the year 2018, which means HUF 219 dividend per share payable to the shareholders.

The retained earnings and reserves according to IFRS contains the retained earnings (HUF 592,917 million and HUF 523,019 million) and reserves (HUF 1,271,287 million and HUF 1,148,860 million) as at 31 December 2018 and 2017 respectively. The reserves include mainly the option reserve, other reserves, the fair value adjustment of financial instruments at fair value through other comprehensive income, fair value of hedge transactions, additional reserves of Income Certificates Exchangeable for Shares ("ICES"), changes in equity accumulated in the previous years at the subsidiaries and due to consolidation as well as translation of foreign exchange differences.
In the Consolidated Financial Statement the Group recognizes the non-monetary items at historical cost. The difference between the historical cost of the non-monetary items in forint amount and the translated foreign currencies into the presentation currency using the exchange rate at the balance sheet date, is presented in the shareholders' equity as a translation difference. The accumulated amounts of exchange differences were HUF (151,439) million and HUF (161,660) million as at 31 December 2018 and 2017 respectively.

	2018	2017
Retained earnings	592,917	523,019
Capital reserve	52	52
Option reserve	(55,468)	(55,468)
Other reserves	79,829	42,971
Fair value of financial instruments measured at fair value through other comprehensive income	39,670	59,935
Share-based payment reserve	35,632	31,835
Fair value of derivative financial instruments designated as cash-flow hedge	(9)	-
Net investment hedge in foreign operations	(16,288)	(13,034)
Extra reserves	89,935	89,935
Net profit for the period	318,233	281,142
Changes in equity accumulated in the previous years at the subsidiaries and due to consolidation	931,140	873,152
Foreign currency translation differences	(151,439)	(161,660)
Retained earnings and other reserves	**1,864,204**	**1,671,879**

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

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

NOTE 22: TREASURY SHARES (in HUF mn)

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

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

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

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

Change in number of shares:

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

Change in carrying value:

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

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

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

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

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

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

Income from fees and commissions	2018	2017
Fees and commissions related to lending[1]	**22,915**	**26,168**
Deposit and account maintenance fees and commissions	144,942	126,280
Fees and commissions related to the issued bank cards	60,222	53,093
Fees related to cash withdrawal	34,173	31,189
Fees and commissions related to fund management	20,233	22,517
Fees and commissions related to security trading	19,448	25,005
Insurance fee income	14,946	11,391
Other	21,202	19,963
Fees and commissions from contracts with customers	**315,166**	**289,438**
Total	**338,081**	**315,606**

Fee type	Nature and timing of obligation settlement, and the significant payment terms	Revenue recognition under IFRS 15
Deposit and account maintenance fees and commissions and fees related to cash withdrawal	The Group provides a number of account management services for both retail and corporate customers in which they charge a fee. Fees related to these services can be typically account transaction fees (money transfer fees, direct debit fees, money standing order fees, etc.), internet banking fees, account control fees (e.g. sms fee), or other fees for occasional services (account statement fees, other administration fees, etc.). Fees for ongoing account management services are charged to the customer's account on a monthly basis. The fees are commonly fix amounts that can be vary per account package and customer category. In the case of the transaction based fees where the services include money transfer the fee is charged when the transaction takes place. The rate of the fee is typically determined in a certain % of the transaction amount. In case of other transaction-based fees (e.g. SMS fee), the fee is settled monthly. In case of occasional services the Group basically charges the fees when the services are used by the customer. The fees can be fixed fees or they can be set in %. The rates are reviewed by the Group regularly.	Fees for ongoing account management services are charged on a monthly basis during the period when they are provided. Transaction-based fees are charged when the transaction takes place or charged monthly at the end of the month.

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

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

Fee type	Nature and timing of obligation settlement, and the significant payment terms	Revenue recognition under IFRS 15
Fees and commission related to the issued bank cards	The Group provides a variety of bank cards to its customers, for which different fees are charged. The fees are basically charged in connection with the issuance of cards and the related card transactions. The annual fees of the cards are charged in advance in a fixed amount for those cards which are in use by the clients. The amount of the annual card fee depends on the type of card. In case of transaction-based fees (e.g. cash withdrawal/payment fee, merchant fee, interchange fee, etc.), the settlement of the fees will take place immediately after the transaction or on a monthly basis. The fee is typically determined in % of the transaction with a fixed minimum amount. For all other cases where the Group provides a continuous service to the customers (e.g. card closing fee), the fees are charged monthly. The fee is calculated in a fix amount. The rates are reviewed by the Group regularly.	Fees for ongoing services are charged on a monthly basis during the period when they are provided. Transaction-based fees are charged when the transaction takes place or charged monthly at the end of the month.
Fees and commissions related to security trading	The Group provides its clients security account management services. Fees will be charged for account management and transactions on accounts. Account management fees are typically charged quarterly or annually. The amount is determined in %, based on the stocks of securities managed by the clients on the account in a given period. Fees for transactions on the securities account are charged immediately after the transaction. They are determined in %, based on the transaction amount. Fees for complex services provided to clients (e.g. portfolio management or custody) are typically charged monthly or annually. The fees are fixed monthly amounts and in some cases a bonus fee are charged.	Fees for ongoing services are charged quarterly or annually during the period when they are provided. The fees are accrued monthly. Transaction-based fees are charged when the transaction takes place.
Fees and commissions related to fund management	Fees from fund management services provided to investment funds and from portfolio management provided to insurance companies, funds. The fee incomes are calculated on the basis of market value of the portfolio and by the fee rates determined in the contracts about portfolio management.	
Net insurance fee income	Due to the fact that the Group rarely provides insurance services to its clients, only acts as an agent, the fee income charged to the customers and fees payable to the insurance company are presented net in the fee income. In addition, agency fee charged for the sale of insurance contracts is also recorded in this line. The fee is charged on a monthly basis and determined in %.	

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

Fee type	Nature and timing of obligation settlement, and the significant payment terms	Revenue recognition under IFRS 15
Other	Fees that are not significant in the Group total income are included in Other fees category. Such fees are safe lease, special procedure fee, account rent fee, fee of a copy of document, etc. Other fees may include charges for continuous services or for ad hoc administration services. Continuous fees are charged monthly (e.g., safe lease fees) at the beginning of the period, typically at a fixed rate. Fees for ad hoc services are charged immediately after the service obligation were met, usually in a fixed amount.	Fees for ongoing services are charged on a monthly basis during the period when they are provided. Fees for ad hoc services are charged when the transaction takes place.

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

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

Other operating income	2018	2017
Income from loss allowance on loans before acquisition	13,507	9,750
Gains on sale of receivables	5,894	6,899
Gains on transactions related to property activities	1,890	2,093
Gains on transactions related to insurance activity	673	409
Non-repayable assets received	575	584
Negative goodwill due to acquisition	-	32,221
Other income from non-financial activities	16,883	13,513
Total	**39,422**	**65,469**

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

Other operating expenses	**2018**	**2017**
Non-repayable assets contributed	5,486	4,165
Financial support for sport association and organization of public utility	3,979	7,331
Impairment on tangible and intangible assets	2,262	-
Fine imposed by Competition Authority	1,441	18
Loss allowance on investments[1]	1,232	184
Loss allowance on other assets	862	7,796
Expenses from losses due to foreign currency loan conversion at foreign subsidiaries	377	-
Impairment / (Release of impairment) on investment properties	244	(71)
Impairment for assets subject to operating lease	82	417
(Release of provision) / Provision for off-balance sheet commitments and contingent liabilities	(141)	16,011
Release of provision for expected losses due to foreign currency loan conversion at foreign subsidiaries	(1,700)	(54)
Other	11,871	15,443
Total	**25,995**	**51,240**

Other administrative expenses	**2018**	**2017**
Personnel expenses		
Wages	191,819	160,262
Taxes related to personnel expenses	39,662	37,645
Other personnel expenses	19,560	15,979
Subtotal	**251,041**	**213,886**
Depreciation and impairment of tangible, intangible assets and goodwill impairment[2]	**57,437**	**49,492**

	2018	**2017**
Other administrative expenses		
Taxes, other than income tax [3]	87,306	80,550
Services	68,476	56,769
Administration expenses	37,027	34,108
Professional fees	32,477	28,122
Rental fees	21,238	18,224
Advertising	18,279	18,299
Subtotal	**264,803**	**236,072**
Total	**573,281**	**499,450**

[1] See details in Note 9.

[2] See details in Note 11.

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

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

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

Deloitte Auditing and Consulting Ltd.

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

Deloitte Network

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

NOTE 27: INCOME TAXES (in HUF mn)

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

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

The breakdown of the income tax expense is:

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

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

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

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

A breakdown of the deferred tax assets are as follows:

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

A breakdown of the deferred tax liabilities are as follows:

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

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

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

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

Income tax adjustments due to permanent differences are as follows:

	2018	2017
Deferred use of tax allowance	6,122	10,492
Share-based payment	342	324
Permanent differences from unused tax losses	118	-
Amounts unenforceable by tax law	(17)	-
Difference due to transition to IFRS	(422)	(4,485)
Use of tax allowance in the current year	(4,835)	(6,964)
Other	(10,432)	4,575
Income tax	**33,837**	**41,503**
Effective tax rate	**9.6%**	**12.9%**

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn)

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
Financial instruments may result in certain risks to the Group. The most significant risks the Group faces include:

28.1. Credit risk

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

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

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan types [continued]

Classification into risk classes

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

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

In the case of trade receivables, contract assets and lease receivables the Group applies the simplified approach and calculates only lifetime expected credit loss.
Performing (Stage 1) assets include all financial assets in the case of which the events and conditions specified in respect of stage 2 and stage 3 do not exist on the reporting date.

A client or loan must be qualified as default if from the following two conditions, one or both of them occur:

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

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

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

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

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan types [continued]

Classification into risk classes [continued]

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

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

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

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

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

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

Defining the expected credit loss on individual and collective basis

On individual basis:

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

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

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan types [continued]

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

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

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

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

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

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

On collective basis:

The following exposures are subject to collective assessment:

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

In the collective impairment methodology credit risk and the change of credit risk can be correctly captured by understanding the risk characteristics of the portfolio. In order to achieve this the main risk drivers shall be identified and used to form homogeneous segments having similar risk characteristics. The segmentation is expected to stay stable from month to month however a regular (at least yearly) revision of the segmentation process should be set up to capture the change of risk characteristics. The segmentation must be performed separately for each parameter, since in each case different factors may have relevance.

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

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan types [continued]

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

On collective basis [continued]

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

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

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

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan types [continued]

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

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

[1] Stage 3 includes POCI category too.

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

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan types [continued]

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

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

[1] Stage 3 includes POCI category too.

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

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan types [continued]

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

	Opening balance	Increases due to origination and acquisition	Decreases due to derecognition	Transfers between stages	Changes due to change in credit risk (net)	Changes due to modifications without derecognition (net)	Decrease in loss allowance account due to write-offs	Other adjustments	Closing balance
Stage 1	**92,280**	**72,512**	**(17,906)**	**(196,638)**	**143,939**	**(2,247)**	**(45)**	**5,279**	**97,174**
Placements with other banks	312	1,204	(9)	-	(1,037)	-	-	(7)	463
Loans at amortized cost	86,748	69,669	(17,670)	(196,638)	146,458	(2,247)	(45)	5,104	91,379
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost	5,220	1,639	(227)	-	(1,482)	-	-	182	5,332
Stage 2	**40,244**	**7,773**	**(3,602)**	**78,714**	**(54,101)**	**(940)**	**(132)**	**(9,239)**	**58,717**
Placements with other banks	1	-	-	-	13	(1)	-	(1)	12
Loans at amortized cost	40,163	7,773	(3,602)	78,714	(54,034)	(939)	(132)	(9,238)	58,705
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost	80	-	-	-	(80)	-	-	-	-
Stage 3[1]	**653,886**	**46,631**	**(72,208)**	**117,924**	**(185,877)**	**6,507**	**(51,530)**	**20,674**	**536,007**
Placements with other banks	24	-	(2)	-	-	-	-	-	22
Loans at amortized cost	653,177	45,926	(72,206)	117,924	(184,904)	6,507	(51,530)	20,386	535,280
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost	685	705	-	-	(973)	-	-	288	705
Loss allowance on financial assets total	**786,410**	**126,916**	**-93,716**	**-**	**(96,039)**	**3,320**	**(51,707)**	**16,714**	**691,898**
Loan commitments and financial guarantees given_ stage 1	14,198	4,908	(2,018)	913	1,846	171	-	1,439	21,457
Loan commitments and financial guarantees given_ stage 2	1,689	1,447	(33)	(1,030)	813	(4)	-	(61)	2,821
Loan commitments and financial guarantees given_ stage 3	4,433	2,631	(388)	117	(2,932)	(121)	-	35	3,775
Financial liabilities total	**20,320**	**8,986**	**(2,439)**	**-**	**(273)**	**46**	**-**	**1,413**	**28,053**

[1] Stage 3 includes POCI category too.

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan types [continued]

Loan portfolio by countries

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

Country	2018 Carrying amount of gross loan at amortized cost and placement with other banks portfolio	2018 Loss allowance	2017 Carrying amount of gross loan at amortized cost and placement with other banks portfolio	2017 Loss allowance
Hungary	3,369,319	154,995	2,988,753	177,834
Bulgaria	1,435,621	126,059	1,280,915	123,673
Croatia	1,282,367	72,827	1,252,800	64,521
Russia	658,205	131,619	588,153	115,064
Romania	622,602	37,917	536,597	42,197
Slovakia	519,264	32,155	382,567	31,563
Serbia	367,995	18,506	355,214	23,248
Ukraine	360,652	77,470	294,181	95,493
Montenegro	169,368	30,153	146,724	43,453
France	55,888	30	30,677	19
Switzerland	51,744	292	4,522	2
United Kingdom	46,183	1,163	64,151	873
Germany	38,102	214	54,110	108
Belgium	31,092	123	12,494	55
United States of America	23,901	42	10,157	22
The Netherlands	19,334	234	4,968	143
Cyprus	19,310	635	41,577	14,117
Turkey	13,148	71	6,235	9
Italy	11,877	129	10,445	33
Austria	10,804	21	29,967	5,251
Australia	6,811	-	155	-
Czech Republic	6,175	104	13,167	14
Poland	4,300	41	2,553	21
Canada	3,306	1	250	807
Norway	2,170	38	8,194	21
Slovenia	1,291	10	309	1
Ireland	1,006	130	401	67
Greece	870	104	455	53
Bosnia and Herzegovina	637	202	1,307	-
Spain	629	12	5,323	1
Sweden	440	43	371	15
Denmark	354	1	113	1
Israel	247	1	4,453	1
Luxembourg	122	1	697	-
Kazakhstan	107	52	130	57
Egypt	90	29	88	6
United Arab Emirates	64	55	23	16
Japan	61	-	623	-
Iceland	49	48	47	34
Latvia	28	15	5	14
Other[1]	3,002	319	54,849	56
Total[2]	**9,138,535**	**685,861**	**8,188,720**	**738,863**

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

[2] It includes the accrued interest receivable too.

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan type [continued]

Loan portfolio by countries [continued]

Country	2018 Loans at fair value
Hungary	32,745
Croatia	1,780
Total	**34,525**

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

28.1.2. Collateral

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

Types of collateral	2018	2017
Mortgages	8,650,498	7,330,181
Assignments (revenue or other receivables)	432,671	409,486
Guarantees and warranties	399,206	297,574
Guarantees of state or organizations owned by state	118,495	173,824
Securities	94,724	75,589
Cash deposits	94,593	115,217
Other	1,149,140	949,143
Total	**10,939,327**	**9,351,014**

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

Types of collateral	2018	2017
Mortgages	3,873,185	3,397,094
Assignments (revenue or other receivables)	374,541	340,365
Guarantees and warranties	270,773	180,680
Guarantees of state or organizations owned by state	103,148	155,615
Securities	61,287	48,622
Cash deposits	51,485	45,207
Other	657,228	550,817
Total	**5,391,647**	**4,718,400**

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

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

28.1. Credit risk [continued]

28.1.3. Restructured loans

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

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

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

28.1. Credit risk [continued]

28.1.4. Financial instruments by rating categories[1]

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

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

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

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

[1] Moody's ratings

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

28.1. Credit risk [continued]

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

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

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

Securities at amortized cost as at 31 December 2018

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

[1] Moody's ratings

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

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

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

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

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

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

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

Due to the balance sheet adjustment process (deleveraging) experienced in the last few years, the liquidity reserves of the Group increased significantly while the liquidity risk exposure has decreased considerably. Currently the (over)coverage of potential liquidity risk exposure by high quality liquid assets is very high. In the year ended 31 December 2018 there were no material changes in the liquidity risk management process.

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

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

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

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

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

As at 31 December 2018	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Banks	1,545,507	1,765	-	-	-	1,547,272
Placements with other banks, net of loss allowance for placements	217,194	151,072	32,676	23,305	388	424,635
Securities at fair value through profit or loss	20,227	4,922	11,855	7,082	25,984	70,070
Securities at fair value through other comprehensive income	257,993	412,482	875,882	276,358	25,681	1,848,396
Loans at amortized cost and at fair value	1,022,190	1,981,871	2,777,450	2,757,872	5,792	8,545,175
Associates and other investments	-	-	-	-	17,591	17,591
Securities at amortized cost	60,240	119,592	871,365	610,122	-	1,661,319
Other financial assets[1]	54,275	35	1	-	193	54,504
TOTAL ASSETS	**3,177,626**	**2,671,739**	**4,569,229**	**3,674,739**	**75,629**	**14,168,962**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	102,833	46,357	155,785	87,741	-	392,716
Deposits from customers	9,995,997	943,409	211,109	141,113	-	11,291,628
Liabilities from issued securities	41,642	6,722	192,865	177,569	-	418,798
Other financial liabilities[2]	141,373	333	-	6	967	142,679
Subordinated bonds and loans	719	1,693	9,060	69,961	-	81,433
TOTAL LIABILITIES	**10,282,564**	**998,514**	**568,819**	**476,390**	**967**	**12,327,254**
NET POSITION	**(7,104,938)**	**1,673,225**	**4,000,410**	**3,198,349**	**74,662**	**1,841,708**
Receivables from derivative financial instruments held for trading	1,330,293	396,708	340,219	257,349	-	2,324,569
Liabilities from derivative financial instruments held for trading	(1,631,984)	(691,221)	(424,756)	(513,369)	-	(3,261,330)
Net position of financial instruments held for trading	**(301,691)**	**(294,513)**	**(84,537)**	**(256,020)**	**-**	**(936,761)**
Receivables from derivative financial instruments designated as hedge accounting	27,095	91,548	241,913	45,726	-	406,282
Liabilities from derivative financial instruments designated as hedge accounting	(26,821)	(76,655)	(438,482)	(60,192)	-	(602,150)
Net position of financial instruments designated as hedge accounting	**274**	**14,893**	**(196,569)**	**(14,466)**	**-**	**(195,868)**
Net position of derivative financial instruments total	**(301,417)**	**(279,620)**	**(281,106)**	**(270,486)**	**-**	**(1,132,629)**
Commitments to extend credit	894,592	1,041,823	210,537	40,667	-	2,187,619
Bank guarantees	195,512	173,734	132,467	96,381	2,184	600,278
Off-balance sheet commitments	**1,090,104**	**1,215,557**	**343,004**	**137,048**	**2,184**	**2,787,897**

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

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

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

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

As at 31 December 2017	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Banks	1,198,257	22	-	-	293	1,198,572
Placements with other banks, net of loss allowance for placements	353,289	57,534	67,814	-	1,183	479,820
Securities at fair value through profit or loss	69,004	74,337	93,041	9,833	6,405	252,620
Securities at fair value through other comprehensive income	186,336	459,696	1,029,498	393,069	33,153	2,101,752
Loans at amortized cost and at fair value	858,922	1,483,399	2,651,539	2,450,010	1,090	7,444,960
Associates and other investments	-	-	-	-	12,269	12,269
Securities at amortized cost	62,873	64,141	470,228	666,807	5	1,264,054
Other financial assets[1]	53,131	343	-	-	44	53,518
TOTAL ASSETS	**2,781,812**	**2,139,472**	**4,312,120**	**3,519,719**	**54,442**	**12,807,565**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	146,667	47,467	124,910	153,089	-	472,133
Deposits from customers	8,864,259	1,032,706	250,209	91,438	-	10,238,612
Liabilities from issued securities	8,758	13,234	223,785	2,092	-	247,869
Other financial liabilities[2]	120,620	878	1	0	1,313	122,812
Subordinated bonds and loans	325	2	-	75,701	-	76,028
TOTAL LIABILITIES	**9,140,629**	**1,094,287**	**598,905**	**322,320**	**1,313**	**11,157,454**
NET POSITION	**(6,358,817)**	**1,045,185**	**3,713,215**	**3,197,399**	**53,129**	**1,650,111**
Receivables from derivative financial instruments held for trading	1,370,126	972,622	585,361	136,689	-	3,064,798
Liabilities from derivative financial instruments held for trading	(1,665,817)	(796,322)	(513,955)	(150,520)	-	(3,126,614)
Net position of financial instruments held for trading	**(295,691)**	**176,300**	**71,406**	**(13,831)**	**-**	**(61,816)**
Receivables from derivative financial instruments designated as hedge accounting	4,302	62,093	158,991	66,120	-	291,506
Liabilities from derivative financial instruments designated as hedge accounting	(402)	(307,404)	(468,105)	(20,241)	-	(796,152)
Net position of financial instruments designated as hedge accounting	**3,900**	**(245,311)**	**(309,114)**	**45,879**	**-**	**(504,646)**
Net position of derivative financial instruments total	**(291,791)**	**(69,011)**	**(237,708)**	**32,048**	**-**	**(566,462)**
Commitments to extend credit	730,236	754,814	205,020	40,620	340	1,731,030
Bank guarantees	120,691	177,311	134,118	98,445	1,794	532,359
Off-balance sheet commitments	**850,927**	**932,125**	**339,138**	**139,065**	**2,134**	**2,263,389**

[1] Without derivative financial instruments, it includes trade receivables, prepayments and accrued income and receivables from investment services.

[2] Without derivative financial instruments, it includes account payables, deferrals, compulsion loans and liabilities from investments services.

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28. 3. Net foreign currency position and foreign currency risk

As at 31 December 2018

	USD	EUR	CHF	Others	Total
Assets	519,763	3.340,594	71,914	3,960,318	7,892,589
Liabilities	(567,176)	(2,855,678)	(53,833)	(3,020,425)	(6,497,112)
Derivative financial instruments	62,014	(355,835)	(20,117)	(27,253)	(341,191)
Net position	**14,601**	**129,081**	**(2,036)**	**912,640**	**1,054,286**

As at 31 December 2017

	USD	EUR	CHF	Others	Total
Assets	499,300	3,007,825	94,450	3,313,756	6,915,331
Liabilities	(563,412)	(2,674,250)	(45,639)	(2,720,237)	(6,003,538)
Derivative financial instruments	68,952	(118,613)	(22,871)	(14,356)	(86,888)
Net position	**4,840**	**214,962**	**25,940**	**579,163**	**824,905**

The table above provides an analysis of the main foreign currency exposures of the Group. The remaining foreign currencies are shown within ‘Others’. ‘Others’ category contains mainly foreign currencies in RON, RSD, HRK, UAH, RUB and BGN. The Group monitors its foreign exchange position for compliance with the regulatory requirements of the National Banks and its own limit system established in respect of limits on open positions. The measurement of the open foreign currency position of the Group involves monitoring the “VaR” limit on the foreign exchange exposure of the Group.

28.4. Interest rate risk management

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, therefore, indicates to what extent it is exposed to interest rate risk.

The majority of the interest bearing assets and liabilities of the Group are structured to match either short-term assets and short-term liabilities, or long-term assets and liabilities with repricing opportunities within one year, or long-term assets and corresponding liabilities where repricing is performed simultaneously.

In addition, the significant spread existing between the different types of interest bearing assets and liabilities enables the Group to benefit from a high level of flexibility in adjusting for its interest rate matching and interest rate risk exposure.

The following table presents the interest repricing dates of the Group. Variable yield assets and liabilities have been reported in accordance with their next repricing date. Fixed income assets and liabilities have been reported in accordance with their maturity.

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.4. Interest rate risk management [continued]

As at 31 December 2018

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
ASSETS	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
Cash, amounts due from banks and balances with the National Banks	**29,189**	**344,793**	**4**	**88**	**-**	**18**	**-**	**-**	**-**	**-**	**202,807**	**970,373**	**232,000**	**1,315,272**	**1,547,272**
fixed rate	27,852	342,282	-	88	-	17	-	-	-	-	-	-	27,852	342,387	370,239
variable rate	1,337	2,511	4	-	-	1	-	-	-	-	-	-	1,341	2,512	3,853
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	202,807	970,373	202,807	970,373	1,173,180
Placements with other banks, net of allowance for placements losses	**104,946**	**139,379**	**8,870**	**56,902**	**29,379**	**30,111**	**861**	**-**	**-**	**826**	**31,233**	**18,099**	**175,289**	**245,317**	**420,606**
fixed rate	5,536	98,584	8,870	50,537	58	28,518	861	-	-	826	-	-	15,325	178,465	193,790
variable rate	99,410	40,795	-	6,365	29,321	1,593	-	-	-	-	-	-	128,731	48,753	177,484
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	31,233	18,099	31,233	18,099	49,332
Financial assets at fair value through profit or loss	**1,073**	**4,328**	**1,510**	**441**	**6,086**	**6,044**	**-**	**1,459**	**-**	**18,496**	**28,843**	**9,671**	**37,512**	**40,439**	**77,951**
fixed rate	2	2,583	67	441	5,095	6,044	-	1,459	-	18,496	-	-	5,164	29,023	34,187
variable rate	1,071	1,745	1,443	-	991	-	-	-	-	-	-	-	3,505	1,745	5,250
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	28,843	9,671	28,843	9,671	38,514
Securities at fair value through other comprehensive income	**68,525**	**42,076**	**142,135**	**81,260**	**408,288**	**52,665**	**119,081**	**64,060**	**349,897**	**523,535**	**1,965**	**30,362**	**1,089,891**	**793,958**	**1,883,849**
fixed rate	48,869	42,076	60,922	81,260	351,691	52,665	119,081	59,750	348,910	523,535	-	-	929,473	759,286	1,688,759
variable rate	19,656	-	81,213	-	56,597	-	-	4,310	987	-	-	-	158,453	4,310	162,763
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	1,965	30,362	1,965	30,362	32,327
Loans at amortized cost and at fair value	**441,995**	**2,749,040**	**880,215**	**659,955**	**131,993**	**623,734**	**280,605**	**205,738**	**1,137,939**	**819,655**	**94,443**	**41,281**	**2,967,190**	**5,099,403**	**8,066,593**
fixed rate	14,422	720,941	1,933	108,312	22,887	324,938	219,491	168,363	709,526	399,139	-	-	968,259	1,721,693	2,689,952
variable rate	427,573	2,028,099	878,282	551,643	109,106	298,796	61,114	37,375	428,413	420,516	-	-	1,904,488	3,336,429	5,240,917
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	94,443	41,281	94,443	41,281	135,724
Securities at amortized cost	**-**	**37,214**	**5,062**	**571**	**122,161**	**8,780**	**107,518**	**16,740**	**1,383,536**	**56,328**	**2,535**	**75**	**1,620,812**	**119,708**	**1,740,520**
fixed rate	-	37,214	5,062	571	122,161	8,780	107,518	16,740	1,383,536	56,328	-	-	1,618,277	119,633	1,737,910
variable rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	2,535	75	2,535	75	2,610
Derivative financial instruments	**842,714**	**477,367**	**907,278**	**442,794**	**645,969**	**447,455**	**19,192**	**264,128**	**23,172**	**84,528**	**234,315**	**120,494**	**2,672,640**	**1,836,766**	**4,509,406**
fixed rate	814,440	475,377	756,860	408,892	643,141	409,431	19,192	264,128	23,172	84,528	-	-	2,256,805	1,642,356	3,899,161
variable rate	28,274	1,990	150,418	33,902	2,828	38,024	-	-	-	-	-	-	181,520	73,916	255,436
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	234,315	120,494	234,315	120,494	354,809
Other financial assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**37,922**	**16,744**	**37,922**	**16,744**	**54,666**
fixed rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
variable rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	**37,922**	**16,744**	**37,922**	**16,744**	**54,666**

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.4. Interest rate risk management [continued]

As at 31 December 2018 [continued]

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
LIABILITIES	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	
Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks	**64,270**	**149,357**	**1,259**	**9,753**	**1,159**	**6,727**	**2,463**	**6,463**	**128,135**	**6,436**	**9,253**	**7,431**	**206,539**	**186,167**	**392,706**
fixed rate	8,655	111,126	1,254	6,929	1,152	3,907	2,463	6,463	128,135	6,436	-	-	141,659	134,861	276,520
variable rate	55,615	38,231	5	2,824	7	2,820	-	-	-	-	-	-	55,627	43,875	99,502
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	9,253	7,431	9,253	7,431	16,684
Deposits from customers	**767,504**	**4,038,620**	**190,038**	**449,593**	**97,267**	**595,259**	**39,958**	**50,021**	**4,041,988**	**747,734**	**3,062**	**264,041**	**5,139,817**	**6,145,268**	**11,285,085**
fixed rate	437,707	1,508,239	190,026	446,960	97,266	595,017	39,958	50,017	4,041,988	747,709	-	-	4,806,945	3,347,942	8,154,887
variable rate	329,797	2,530,381	12	2,633	1	242	-	4	-	25	-	-	329,810	2,533,285	2,863,095
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	3,062	264,041	3,062	264,041	267,103
Liabilities from issued securities	**23,608**	**1,065**	**133,223**	**1,903**	**4,211**	**2,098**	**5,611**	**42**	**242,710**	**47**	**3,424**	**24**	**412,787**	**5,179**	**417,966**
fixed rate	-	227	39,265	-	2,156	4	5,611	42	242,710	47	-	-	289,742	320	290,062
variable rate	23,608	838	93,958	1,903	2,055	2,094	-	-	-	-	-	-	119,621	4,835	124,456
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	3,424	24	3,424	24	3,448
Derivative financial instruments	**1,095,148**	**227,313**	**963,041**	**363,943**	**615,257**	**464,843**	**273,251**	**14,581**	**39,995**	**60,652**	**214,445**	**139,054**	**3,201,137**	**1,270,386**	**4,471,523**
fixed rate	1,068,144	216,646	823,357	341,469	612,805	441,177	273,251	14,581	39,995	60,652	-	-	2,817,552	1,074,525	3,892,077
variable rate	27,004	10,667	139,684	22,474	2,452	23,666	-	-	-	-	-	-	169,140	56,807	225,947
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	214,445	139,054	214,445	139,054	353,499
Subordinated bonds and loans	**-**	**-**	**-**	**76,498**	**-**	**-**	**-**	**-**	**-**	**4,903**	**-**	**28**	**-**	**81,429**	**81,429**
fixed rate	-	-	-	-	-	-	-	-	-	4,903	-	-	-	4,903	4,903
variable rate	-	-	-	76,498	-	-	-	-	-	-	-	-	-	76,498	76,498
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	28	-	28	28
Other financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**106,999**	**35,664**	**106,999**	**35,664**	**142,663**
fixed rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
variable rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	106,999	35,664	106,999	35,664	142,663
Net position	**(462,088)**	**(622,158)**	**657,513**	**340,321**	**625,982**	**99,880**	**205,974**	**481,018**	**(1,558,284)**	**683,596**	**296,880**	**760,857**	**(234,023)**	**1,743,514**	**1,509,491**

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.4. Interest rate risk management [continued]

As at 31 December 2017

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
ASSETS	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	
Cash, amounts due from banks and balances with the National Banks	**205,408**	**435,363**	**2,977**	**290**	**-**	**22**	**-**	**-**	**-**	**-**	**95,079**	**458,906**	**303,464**	**894,581**	**1,198,045**
fixed rate	203,141	363,723	2,972	290	-	22	-	-	-	-	-	-	206,113	364,035	570,148
variable rate	2,267	71,640	5	-	-	-	-	-	-	-	-	-	2,272	71,640	73,912
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	95,079	458,906	95,079	458,906	553,985
Placements with other banks, net of allowance for placements losses	**70,716**	**263,359**	**15,698**	**21,517**	**3,197**	**23,258**	**14,214**	**-**	**202**	**3,896**	**17**	**46,106**	**104,044**	**358,136**	**462,180**
fixed rate	14,098	197,489	1,063	10,969	3,197	13,983	14,214	-	202	3,188	-	-	32,774	225,629	258,403
variable rate	56,618	65,870	14,635	10,548	-	9,275	-	-	-	708	-	-	71,253	86,401	157,654
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	17	46,106	17	46,106	46,123
Financial assets at fair value through profit or loss	**12,126**	**14,056**	**33,662**	**6,342**	**66,770**	**21,042**	**43,938**	**18,339**	**1,480**	**25,890**	**11,742**	**3,876**	**169,718**	**89,545**	**259,263**
fixed rate	11,656	13,862	33,038	6,342	50,432	21,042	43,938	18,339	1,480	25,890	-	-	140,544	85,475	226,019
variable rate	470	194	624	-	16,338	-	-	-	-	-	-	-	17,432	194	17,626
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	11,742	3,876	11,742	3,876	15,618
Securities at fair value through other comprehensive income	**81,348**	**55,439**	**70,013**	**58,292**	**384,454**	**95,966**	**279,134**	**122,569**	**528,552**	**468,019**	**11,265**	**19,667**	**1,354,766**	**819,952**	**2,174,718**
fixed rate	59,495	49,309	50,493	28,285	360,619	95,966	269,149	122,569	528,552	468,019	-	-	1,268,308	764,148	2,032,456
variable rate	21,853	6,130	19,520	30,007	23,835	-	9,985	-	-	-	-	-	75,193	36,137	111,330
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	11,265	19,667	11,265	19,667	30,932
Loans at amortized cost and at fair value	**877,092**	**2,323,586**	**665,244**	**725,290**	**224,567**	**683,897**	**122,063**	**248,308**	**505,101**	**500,411**	**45,587**	**66,688**	**2,439,654**	**4,548,180**	**6,987,834**
fixed rate	40,871	306,371	24,701	110,151	56,856	322,608	58,585	230,020	210,269	443,789	-	-	391,282	1,412,939	1,804,221
variable rate	836,221	2,017,215	640,543	615,139	167,711	361,289	63,478	18,288	294,832	56,622	-	-	2,002,785	3,068,553	5,071,338
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	45,587	66,688	45,587	66,688	112,275
Securities at amortized cost	**-**	**41,241**	**-**	**2,824**	**69,084**	**4,995**	**111,596**	**8,600**	**1,002,642**	**49,751**	**19,504**	**94**	**1,202,826**	**107,505**	**1,310,331**
fixed rate	-	40,895	-	2,824	69,084	4,987	111,596	8,600	1,002,642	49,751	-	-	1,183,322	107,057	1,290,379
variable rate	-	346	-	-	-	8	-	-	-	-	-	-	-	354	354
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	19,504	94	19,504	94	19,598
Derivative financial instruments	**756,421**	**339,855**	**702,752**	**418,190**	**484,697**	**311,040**	**71,257**	**31,422**	**22,061**	**33,834**	**623,542**	**231,976**	**2,660,730**	**1,366,317**	**4,027,047**
fixed rate	735,532	335,957	525,555	415,869	463,910	298,831	70,794	31,422	22,061	33,834	-	-	1,817,852	1,115,913	2,933,765
variable rate	20,889	3,898	177,197	2,321	20,787	12,209	463	-	-	-	-	-	219,336	18,428	237,764
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	623,542	231,976	623,542	231,976	855,518
Other financial assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**37,522**	**15,996**	**37,522**	**15,996**	**53,518**
fixed rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
variable rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	37,522	15,996	37,522	15,996	53,518

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.4. Interest rate risk management [continued]

As at 31 December 2017 [continued]

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
LIABILITIES	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks	**40,026**	**116,024**	**8,927**	**19,477**	**34,745**	**22,624**	**17,858**	**11,954**	**165,864**	**32,771**	**17**	**1,781**	**267,437**	**204,631**	**472,068**
fixed rate	22,904	82,573	8,583	2,085	25,817	17,182	17,843	11,954	165,115	32,768	-	-	240,262	146,562	386,824
variable rate	17,122	33,451	344	17,392	8,928	5,442	15	-	749	3	-	-	27,158	56,288	83,446
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	17	1,781	17	1,781	1,798
Deposits from customers	**1,337,594**	**3,597,101**	**142,659**	**386,023**	**98,017**	**722,046**	**59,361**	**80,024**	**2,894,525**	**681,756**	**2,312**	**232,053**	**4,534,468**	**5,699,003**	**10,233,471**
fixed rate	500,409	2,061,046	133,246	383,738	98,017	722,046	59,361	80,024	132,197	127,130	-	-	923,230	3,373,984	4,297,214
variable rate	837,185	1,536,055	9,413	2,285	-	-	-	-	2,762,328	554,626	-	-	3,608,926	2,092,966	5,701,892
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	2,312	232,053	2,312	232,053	234,365
Liabilities from issued securities	**53,686**	**1,358**	**2,309**	**2,462**	**7,621**	**3,265**	**39,818**	**251**	**134,286**	**57**	**5,197**	**10**	**242,917**	**7,403**	**250,320**
fixed rate	429	58	2,309	22	7,621	357	39,818	251	134,286	57	-	-	184,463	745	185,208
variable rate	53,257	1,300	-	2,440	-	2,908	-	-	-	-	-	-	53,257	6,648	59,905
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	5,197	10	5,197	10	5,207
Derivative financial instruments	**875,512**	**207,974**	**909,079**	**147,684**	**397,702**	**309,225**	**43,494**	**9,167**	**35,935**	**38,342**	**368,513**	**469,341**	**2,630,235**	**1,181,733**	**3,811,968**
fixed rate	853,960	204,051	770,912	123,845	394,530	303,888	43,428	9,167	35,935	38,342	-	-	2,098,765	679,293	2,778,058
variable rate	21,552	3,923	138,167	23,839	3,172	5,337	66	-	-	-	-	-	162,957	33,099	196,056
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	368,513	469,341	368,513	469,341	837,854
Subordinated bonds and loans	**-**	**-**	**-**	**76,020**	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**7**	**-**	**76,028**	**76,028**
fixed rate	-	-	-	76,020	-	-	-	-	-	-	-	-	-	76,020	76,020
variable rate	-	-	-	-	-	-	-	-	-	1	-	-	-	1	1
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	7	-	7	7
Other financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**91,812**	**31,000**	**91,812**	**31,000**	**122,812**
fixed rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
variable rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	91,812	31,000	91,812	31,000	122,812
Net position	**(303,707)**	**(449,558)**	**427,372**	**601,079**	**694,684**	**83,060**	**481,671**	**327,842**	**(1,170,572)**	**328,874**	**376,407**	**109,117**	**505,855**	**1,000,414**	**1,506,269**

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.5. Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Group applies a 'Value-at-Risk' (VaR) methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Management Board sets limits on the value of risk that may be accepted, which is monitored on a daily basis. (Analysis of liquidity risk, foreign currency risk and interest rate risk is detailed in Notes 28.2., 28.3. and 28.4., respectively.)

28.5.1. Market Risk sensitivity analysis

The VaR risk measure estimates the potential loss in pre-tax profit over a given holding period for a specified confidence level.

The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 99% VaR number used by the Group reflects the 99% probability that the daily loss will not exceed the reported VaR.

VaR methodologies are employed to calculate daily risk numbers include the historical and variance-covariance approach. The diversification effect has not been validated among the various market risk types when capital calculation happens.
In addition to these two methodologies, Monte Carlo simulations are applied to the various portfolios on a monthly basis to determine potential future exposure.

The VaR of the trading portfolio can be summarized as follows (in HUF mn):

Historical VaR (99%, one-day) by risk type	**Average**	
	2018	**2017**
Foreign exchange	504	300
Interest rate	212	191
Equity instruments	33	10
Diversification	-	-
Total VaR exposure	**749**	**501**

The table above shows the VaR figures by asset classes. Since processes driving the value of the major asset classes are not independent (for example the depreciation of HUF against the EUR mostly coincide with the increase of the yields of Hungarian Government Bonds), a diversification impact emerges, so the overall VaR is less than the sum of the VaR of each individual asset class.

While VaR captures the Group's daily exposure to currency and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in interest or foreign currency rates over a year. The longer time frame of sensitivity analysis complements VaR and helps the Group to assess its market risk exposures. Details of sensitivity analysis for foreign currency risk are set out in Note 28.5.2., for interest rate risk in Note 28.5.3., and for equity price sensitivity analysis in Note 28.5.4.

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.5. Market risk [continued]

28.5.2. Foreign currency sensitivity analysis

The following table details the Group's sensitivity to an increase and decrease in the HUF exchange rate against the EUR and USD, over a 3 months period. Monte Carlo simulation is used when reporting foreign currency risk internally to key management personnel and represents Management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items as strategic open positions related to foreign activities.
The strategic open position related to the foreign operations was short and amounted to EUR 310 million (kept to hedge the currency risk of the expected FX-denominated net earnings of the main foreign subsidiaries) as at 31 December 2018. High portion of strategic positions is considered as effective hedge of the net investment in foreign subsidiaries – net investment hedge is applied at a Group level -, and so FX risk affects the Group's Comprehensive Income and not its earnings.

A positive number below indicates an increase in profit where the HUF strengthens against the EUR. For a weakening of the HUF against the EUR, there would be an equal and opposite impact on the profit, and the balances below would be negative.

Probability	Effects to the Consolidated Statement of Profit or Loss in 3 months period	
	2018	**2017**
	In HUF billion	In HUF billion
1%	(12.2)	(11.9)
5%	(8.3)	(8.1)
25%	(3.5)	(3.3)
50%	(0.4)	(0.3)
25%	2.6	2.6
5%	6.7	6.7
1%	9.6	9.4

Notes:
(1) The short term loss on the strategic open position is compensated by the long-term exchange rate gain on the foreign operations.
(2) Monte Carlo simulation is based on the empirical distribution of the historical exchange rate movements between 2002 and 2018.

The effect on equity of the foreign currency sensitivity analysis is not significant either for the year ended 31 December 2018 or 2017.

28.5.3. Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. The analysis is prepared assuming the amount of assets and liabilities outstanding at the balance sheet date was outstanding for the whole year. The analysis was prepared by assuming only adverse interest rate changes. The main assumptions were as follows:

- Floating rate assets and liabilities were repriced to the modelled benchmark yields at the repricing dates assuming the unchanged margin compared to the last repricing.
- Fixed rate assets and liabilities were repriced at the contractual maturity date.
- As for liabilities with discretionary repricing feature by the Bank were assumed to be repriced with two-weeks delay, assuming no change in the margin compared to the last repricing date.
- Assets and liabilities with an interest rate lower than 0.3% were assumed to be unchanged for the whole period.

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.5 Market risk [continued]

28.5.3. Interest rate sensitivity analysis [continued]

The sensitivity of interest income to changes in BUBOR was analysed by assuming two interest rate path scenarios:

(1) HUF base rate stays unchanged and BUBOR decreases gradually to 0.0% (probable scenario)
(2) HUF base rate stays unchanged and BUBOR decreases gradually by 50 bps over the next year (alternative scenario)

The net interest income in a one year period after 1 January 2019 would be decreased by HUF 1,309 million (probable scenario) and HUF 3,424 million (alternative scenario) as a result of these simulation. The same simulation indicated HUF 191 million (probable scenario) and HUF 5,028 million (alternative scenario) decrease in the Net interest income in a one year period after 31 December 2017.
This effect is counterbalanced by capital gains HUF 268 million (or probable scenario), HUF 3,331 million (for alternative scenario) as at 31 December 2018 and (HUF 306 million for probable scenario, HUF 3,735 million for alternative scenario) as at 31 December 2017 on the government bond portfolio held for hedging (economic).

Furthermore, the effects of an instant 10bps parallel shift of the HUF, EUR and USD yield-curves on net interest income over a one-year period and on the market value of the hedge government bond portfolio booked against capital was analysed. The results can be summarized as follows (in HUF million):

	2018		2017	
Description	**Effects to the net interest income (one-year period)**	**Effects to capital (Price change of government bonds at fair value through other comprehensive income)**	**Effects to the net interest income (one-year period)**	**Effects to capital (Price change of government bonds at fair value through other comprehensive income)**
HUF (0.1%) parallel shift	(1,815)	671	(1,658)	771
EUR (0.1%) parallel shift	(373)	-	(539)	-
USD (0.1%) parallel shift	(172)	-	(168)	-
Total	**(2,360)**	**671**	**(2,365)**	**771**

28.5.4. Equity price sensitivity analysis

The following table shows the effect of the equity price sensitivity. The Group uses VaR calculation with 1 day holding period and a 99% confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. The daily loss will not exceed the reported VaR number with 99% of probability.
The stress test assumes the largest price movement of the last year and calculates with it as the adverse direction. These scenarios show the loss of the portfolio when all prices change with the maximum amount of the last year.

Description	**2018**	**2017**
VaR (99%, one day, HUF million)	33	10
Stress test (HUF million)	(43)	(123)

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.6. Capital management

Capital management

The primary objective of the capital management of the Group is to ensure the prudent operation, the entire compliance with the prescriptions of the regulator for a persistent business operation and maximising the shareholder value, accompanied by an optimal financing structure.
The capital management of the Group members includes the management and evaluation of the shareholders` equity available for hedging risks, other types of funds to be recorded in the equity and all material risks to be covered by the capital.
The basis of the capital management of the Group members in the short run is the continuous monitoring of their capital position, in the long run the strategic and the business planning, which includes the monitoring and forecast of the capital position.
The Group members maintain the capital adequacy required by the regulatory bodies and the planned risk taking mainly by means of ensuring and developing their profitability. In case the planned risk level of a Group member exceeded its Core and the previously raised Supplementary capital, it ensures the prudent operation by occasional measures. A further tool in the capital management of the Bank is the dividend policy, and the transactions performed with the treasury shares.

Capital adequacy

The Capital Requirements Directive package (CRDIV/CRR) transposes the new global standards on banking regulation (known as the Basel III agreement) into the EU legal framework. The new rules are applied from 1 January 2014. They set stronger prudential requirements for institutions, requiring them to keep sufficient capital reserves and liquidity. This new framework makes institutions in the EU more solid and strengthens their capacity to adequately manage the risks linked to their activities, and absorb any losses they may incur in doing business.
The capital adequacy of the Group is supervised based on the financial statements data prepared in accordance with IFRS applying the current directives, rulings and indicators from 1 January 2014.

The Group has entirely complied with the regulatory capital requirements in year 2018 as well as in year 2017.

The Group uses the standard method for determining the regulatory capital requirements of the credit risk and market risk, and parallel to that, the base indicator method and the advanced method (AMA) in case of the operational risk.

For international comparison purposes, the Group calculated the Regulatory capital based on IFRS data as adopted by the EU, and the consolidated Capital adequacy ratio based on this in accordance with the regulations of Basel III. The Capital adequacy ratio of the Group (IFRS) was 15.3%, the Regulatory capital was HUF 1,449,629 million and the Total regulatory capital requirement was HUF 757,157 million as at 31 December 2018. The same ratios calculated as at 31 December 2017 were the following: 14.6%, HUF 1,228,628 million and HUF 671,194 million.

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.6. Capital management [continued]

Capital adequacy [continued]

Calculation on IFRS basis	**2018**	**2017**
Core capital (Tier 1) = Common Equity Tier 1 (CET 1)	***1,282,906***	***1,062,701***
Issued capital	28,000	28,000
Reserves	1,548,469	1,383,726
Fair value corrections	23,374	59,936
Other capital components	(115,807)	(142,860)
Non-controlling interests	1,313	940
Treasury shares	(67,999)	(63,289)
Goodwill and other intangible assets	(168,911)	(178,640)
Other adjustments	34,467	(25,112)
Additional Tier 1 (AT1)	-	-
Supplementary capital (Tier 2)	***166,723***	***165,927***
Subordinated bonds and loans	76,496	75,695
Other issued capital components	89,935	89,935
Components recognized in T2 capital issued by subsidiaries	292	297
Regulatory capital[1]	**1,449,629**	**1,228,628**
Credit risk capital requirement	635,328	543,645
Market risk capital requirement	32,379	41,000
Operational risk capital requirement	89,450	86,549
Total requirement regulatory capital	**757,157**	**671,194**
Surplus capital	**768,742**	**557,434**
CET 1 ratio	13.6%	12.7%
Tier 1 ratio	13.6%	12.7%
Capital adequacy ratio	**15.3%**	**14.6%**

Basel III

The components of the Common Equity Tier 1 capital (CET 1) are the following: Issued capital, Reserves (Profit reserves, Other reserves, Changes in the equity of subsidiaries, Net Profit for the year, Changes due to consolidation) Fair value adjustments, Other capital components, (Revaluation reserves, Share based payments, Cash-flow hedges, Net investment hedge in foreign operations), Non-controlling interest, Treasury shares, Goodwill and other Intangible assets, other adjustments (due to prudential filters, due to deferred tax receivables, due to temporary regulations).

Supplementary capital (Tier 2): Subordinated loan capital, Supplementary loan capital, Other issued capital components, Components recognized in T2 capital issued by subsidiaries.

[1] The consolidated regulatory capital of the Group doesn't contain the profit decreased by the paid dividend nor for the year 2018 neither for the year 2017.

NOTE 29: RECLASSIFICATION OF FINANCIAL INSTRUMENTS (in HUF mn)

Reclassification from securities held-for-trading to securities at fair value through other comprehensive income:

Date of reclassification	Reason for reclassification	Type of securities	Nominal value at reclassification	Fair value at the date of reclassification	EIR at the date of reclassification	Interest income
1 September 2018	Change in business model	Retail Hungarian government bonds	66,506	66,484	2%-6,4%	643

During the year 2018, securities issued by the Hungarian Government with the nominal value of HUF 66,506 million were transferred from the trading portfolio to the securities at fair value through other comprehensive income. The Group has previously held retail government bonds in the portfolio at fair value through other comprehensive income. During 2018 the Group changed the business model of the retail government bonds to manage all on the basis of a single business model aimed at collecting the future contractual cash flows and/or selling them.
In 2018, the terms and conditions of sale of retail government bonds and the pricing environment have changed significantly, as a result of which the Group is no longer able to maintain its sole trading intent with these securities that the Group applied earlier . Due to the decrease in transaction volume and the changes in conditions, the Group has chosen to keep the securities and realises its cash-flows however also realising potential gains by making favourable buy-sell transaction on the market

NOTE 30: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn)

In the normal course of business, the Group becomes a party to various financial transactions that are not reflected on the Consolidated Statement of Financial Position and are referred to as off-balance sheet financial instruments. The following represent notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

Contingent liabilities

	2018	2017
Commitments to extend credit	2,187,619	1,731,030
Guarantees arising from banking activities	600,278	532,359
Contingent liabilities and commitments total in accordance with IFRS 9	**2,787,897**	**2,263,389**
Legal disputes (disputed value)	30,644	15,775
Confirmed letters of credit	9,798	14,541
Other	255,271	326,745
Contingent liabilities and commitments total in accordance with IAS 37	**295,713**	**357,061**
Total	**3,083,610**	**2,620,450**

Legal disputes

At the balance sheet date the Group was involved in various claims and legal proceedings of a nature considered normal to its business. The level of these claims and legal proceedings corresponds to the level of claims and legal proceedings in previous years.

The Group believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash-flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation. Provisions due to legal disputes were HUF 25,930 million and HUF 24,958 million as at 30 December 2018 and 2017, respectively. (See Note 18.)

NOTE 30: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn) [continued]

Commitments to extend credit, guarantees and letters of credit

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Guarantees, irrevocable letters of credit and undrawn loan commitments are subject to similar credit risk monitoring and credit policies as utilised in the extension of loans. The Management of the Group believes the market risk associated with guarantees, irrevocable letters of credit and undrawn loan commitments are minimal.

Guarantees, payment undertakings arising from banking activities

Payment undertaking is a promise by the Group to assume responsibility for the debt obligation of a borrower if that borrower defaults until a determined amount, until a determined date, in case of fulfilling conditions, without checking the underlying transactions. The guarantee's liability is joint and primary with the principal, in case of payment undertaking, while the Group assumes the obligation derived from guarantee independently by the conditions established by the Group.
A guarantee is most typically required when the ability of the primary obligor or principal to perform its obligations under a contract is in question, or when there is some public or private interest which requires protection from the consequences of the principal's default or delinquency. A contract of guarantee is subject to the statute of frauds (or its equivalent local laws) and is only enforceable if recorded in writing and signed by the surety and the principal.
If the surety is required to pay or perform due to the principal's failure to do so, the law will usually give the surety a right of subrogation, allowing the surety to use the surety's contractual rights to recover the cost of making payment or performing on the principal's behalf, even in the absence of an express agreement to that effect between the surety and the principal.

Derivatives

The Group maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except for trading with clients, where the Group in most of the cases requires margin deposits.

NOTE 31: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn)

Previously approved option program required a modification thanks to the introduction of the Bank Group Policy on Payments accepted in resolution of Annual General Meeting regarding to the amendment of CRD III. Directives and Act on Credit Institutions and Financial Enterprises.

Key management personnel affected by the Bank Group Policy receive compensation based on performance assessment generally in the form of cash bonus and equity shares in a ratio of 50-50%. Assignment is based on OTP shares, furthermore performance based payments are deferred in accordance with the rules of Credit Institutions Act.

The Bank ensures the share-based payment part for the management personnel of the Group members.

During implementation of the Remuneration Policy of the Group appeared that in case of certain foreign subsidiaries it is not possible to ensure the originally determined share-based payment because of legal reasons – incompatible with relevant EU-directives –, therefore a decision was made to cancel the share-based payment in affected countries, and virtual share based payment – cash payment fixed to share price - was made from 2017.

The quantity of usable shares for individuals calculated for settlement of share-based payment shall be determined as the ratio of the amount of share-based payment and share price determined by Supervisory Board[1]

The value of the share-based payment at the performance assessment is determined within 10 days by Supervisory Board based on the average of the three previous trade day's middle rate of OTP's equity shares fixed on the Budapest Stock Exchange.

At the same time the conditions of discounted share-based payment are determined, and share-based payment shall contain maximum HUF 2,000 discount at the assessment date, and earnings for the shares at the payment date is maximum HUF 4,000.

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment. IAS 19 Employee Benefits shall be applied in accounting for all employee benefits, except those to which IFRS 2 Share-based Payment applies. In case of the jubilee benefits both standards contain regulations.

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Post-employment benefits are employee benefits (other than termination and short-term employee benefits) that are payable after the completion of employment. Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees. Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions.

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either: an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment. Other long-term employee benefits are all employee benefits other than short-term employee benefits, postemployment benefits and termination benefits.

[1] Until the end of 2014 Board of Directors

NOTE 31: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn) [continued]

The parameters for the share-based payment relating to the year 2013-2014 were determined by Board of Directors for periods of each year as follows:

Year	Share purchasing at a discounted price			
	Exercise price	Maximum earnings	Exercise price	Maximum earnings
	(HUF per share)			
	for the year 2013		for the year 2014	
2014	2,522	2,500	-	-
2015	2,522	3,000	3,930	2,500
2016	2,522	3,500	3,930	3,000
2017	2,522	3,500	3,930	3,000
2018	-	-	3,930	3,000

The parameters for the share-based payment relating to years from 2015 by the Supervisory Board for periods of each year as follows:

Year	Share purchasing at a discounted price		Price of remuneration exchanged to share	Share purchasing at a discounted price		Price of remuneration exchanged to share	Share purchasing at a discounted price		Price of remuneration exchanged to share
	Exercise price	Maximum earnings		Exercise price	Maximum earnings		Exercise price	Maximum earnings	
	(Ft/db)								
	for the year 2015			for the year 2016			for the year 2017		
2016	4,892	2,500	6,892	-	-	-	-	-	-
2017	4,892	3,000	6,892	7,200	2,500	9,200	-	-	-
2018	4,892	3,000	6,892	7,200	3,000	9,200	8,064	3,000	10,064
2019	4,892	3,000	6,892	7,200	3,500	9,200	8,064	3,500	10,064
2020	-	-	-	7,200	4,000	9,200	8,064	4,000	10,064
2021	-	-	-	-	-	-	8,064	4,000	10,064
2022	-	-	-	-	-	-	8,064	4,000	10,064

NOTE 31: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn) [continued]

Based on parameters accepted by Board of Directors relating to the year **2013** effective pieces are follows as at 31 December 2018:

	Approved pieces of shares	Exercised until 31 December 2018	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable as at 31 December 2018
Share purchasing period started in 2014	406,044	404,263	4,369	1,781	-
Share purchasing period started in 2015	804,469	804,469	4,918	-	-
Share purchasing period started in 2016	393,750	393,750	6,775	-	-
Share purchasing period started in 2017	483,987	483,987	9,405	-	-

Based on parameters accepted by Board of Directors relating to the year **2014** effective pieces are follows as at 31 December 2018:

	Approved pieces of shares	Exercised until 31 December 2018	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable as at 31 December 2018
Share purchasing period started in 2015	176,459	176,459	5,828	-	-
Share purchasing period started in 2016	360,425	359,524	7,011	901	-
Share purchasing period started in 2017	189,778	189,778	9,362	-	-
Share purchasing period started in 2018	223,037	200,433	10,097	-	22,604

Based on parameters accepted by Supervisory Board relating to the year **2015** effective pieces are follows as at 31 December 2018:

	Approved pieces of shares	Exercised until 31 December 2018	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable as at 31 December 2018
Share purchasing period started in 2016	152,247	152,247	7,373	-	-
Remuneration exchanged to share provided in 2016	10,947	10,947	6,509	-	-
Share purchasing period started in 2017	299,758	299,758	9,403	-	-
Remuneration exchanged to share provided in 2017	20,176	20,176	9,257	-	-
Share purchasing period started in 2018	166,047	151,489	10,009	-	14,558
Remuneration exchanged to share provided in 2018	9,229	9,229	10,098	-	-
Share purchasing period starting in 2019	-	-	-	-	204,585
Remuneration exchanged to share applying in 2019	-	-	-	-	10,671

NOTE 31: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn) [continued]

Based on parameters accepted by Supervisory Board relating to the year **2016** effective pieces are follows as at 31 December 2018:

	Approved pieces of shares	Exercised until 31 December 2018	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable as at 31 December 2018
Share purchasing period started in 2017	147,984	147,984	9,544	-	-
Remuneration exchanged to share provided in 2017	4,288	4,288	9,194	-	-
Share purchasing period started in 2018	321,528	314,769	10,283	-	6,759
Remuneration exchanged to share provided in 2018	8,241	8,241	10,098	-	-
Share purchasing period starting in 2019	-	-	-	-	163,390
Remuneration exchanged to share applying in 2019	-	-	-	-	4,148
Share purchasing period starting in 2020	-	-	-	-	172,356
Remuneration exchanged to share applying in 2020	-	-	-	-	4,567

Based on parameters accepted by Supervisory Board relating to the year **2017** effective pieces are follows as at 31 December 2018:

	Approved pieces of shares	Exercised until 31 December 2018	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable as at 31 December 2018
Share purchasing period started in 2018	108,243	108,243	11,005	-	-
Remuneration exchanged to share provided in 2018	11,926	11,926	10,098	-	-
Share purchasing period starting in 2019	-	-	-	-	212,263
Remuneration exchanged to share applying in 2019	-	-	-	-	26,293
Share purchasing period starting in 2020	-	-	-	-	101,577
Remuneration exchanged to share applying in 2020	-	-	-	-	12,838
Share purchasing period starting in 2021	-	-	-	-	120,981
Remuneration exchanged to share applying in 2021	-	-	-	-	12,838
Share purchasing period starting in 2022	-	-	-	-	42,820
Remuneration exchanged to share applying in 2022	-	-	-	-	3,003

Effective pieces relating to the periods starting in 2019-2022 settled during valuation of performance of year 2015-2017, can be modified based on risk assessment and personal changes.

In connection with shares given as a part of payments detailed in the *Direction of Chief Executive about the Remuneration of Work in OTP Bank* and the share-based compensation for Board of Directors and connecting compensation based on performance assessment accounted as equity-settled share based transactions, HUF 3,797 million and HUF 3,597 million was recognized as expense for the year ended 31 December 2018 and 2017 respectively.

NOTE 32: RELATED PARTY TRANSACTIONS (in HUF mn)

The compensation of key management personnel, such as the members of the Board of Directors, members of the Supervisory Board, key employees of the Bank and its major subsidiaries involved in the decision-making process in accordance with the compensation categories defined in IAS 24 Related Party Disclosures, is summarised below:

Compensations	2018	2017
Short-term employee benefits	7,817	8,323
Share-based payment	2,431	2,520
Other long-term employee benefits	390	384
Termination benefits	36	29
Post-employment benefits	26	12
Total	**10,700**	**11,268**

	2018	2017
Loans provided to companies owned by the Management (normal course of business)	62,971	56,508
Commitments to extend credit and guarantees	37,809	38,652
Credit lines of the members of Board of Directors and the Supervisory Board and their close family members and Treasury credit lines of the members of Board of Directors and their close family members (at normal market conditions)	3,692	3,743

	2018		2017	
Types of transactions	Non-consolidated subsidiaries	Associated companies	Non-consolidated subsidiaries	Associated companies
Loans provided	5,136	22	4,484	1,334
Client deposits	4,753	628	5,191	321
Net interest income on loan provided	144	-	132	111
Net fee incomes	39	-	44	-

An analysis of **credit line "A"** is as follows:

	2018	2017
Members of Board of Directors and their close family members	130.7	37
Executives	117	163.8
Members of Supervisory Board and their close family members	4.4	0.7
Total	**252.1**	**201.5**

An analysis of credit limit related to **MasterCard Gold** is as follows:

	2018	2017
Members of Board of Directors and their close family members	29	29
Executives	5	5
Total	**34**	**34**

An analysis of credit limit related to **MasterCard Bonus** is as follows:

	2018	2017
Executives	2	-
Total	**2**	**-**

NOTE 32: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]

An analysis of credit limit related to **Visa Card** is as follows:

	2018	2017
Members of Board of Directors and their close family members	31.5	31
Members of Supervisory Board and their close family members	0.3	0.3
Total	**31.8**	**31.3**

An analysis of credit limit related to **AMEX Blue credit card loan** is as follows:

	2018	2017
Members of Board of Directors and their close family members	2.2	0.6

An analysis of credit limit related to **AMEX Gold credit card loan** is as follows:

	2018	2017
Members of Board of Directors and their close family members	4.2	2.8
Executives	35	12
Total	**39.2**	**14.8**

An analysis of credit limit related to **AMEX Platinum credit card loan** is as follows:

	2018	2017
Members of Board of Directors and their close family members	17	17
Executives and their close family members	79	39.8
Total	**96**	**56.8**

The Members of Board of Directors and their close family members owned credit limit related to other – above not listed - credit card in the amount of HUF 23.8 million and HUF 19 million as at 31 December 2018 and 2017 respectively.

An analysis of **Lombard loans** and **Personal loans** at the Bank is as follows:

	2018	2017
Members of Board of Directors and their close family members	29,084	29,084
Executives and their close family members	230	230
Total Lombard loans	**29,314**	**29,314**
Executives	12	5
Total Personal loans	**12**	**5**
Executives	2	-
Total loans distributed by OTP in its capacity of employee	**2**	**-**

An analysis of payment to executives of the Group related to their activity in Board of Directors and Supervisory Board is as follows:

	2018	2017
Members of Board of Directors	2,262	2,121
Members of Supervisory Board	202	204
Total	**2,464**	**2,325**

In the normal course of business, the Bank enters into other transactions with its unconsolidated subsidiaries of the Group, the amounts and volumes of which are not significant to these consolidated financial statements taken as a whole. Related party transactions were made on terms equivalent to those that prevail in arm's length transactions and such terms can be substantiated.

NOTE 33: ACQUISITION (in HUF mn)

a) Purchase and consolidation of subsidiaries

Based on the acquisition agreement on purchasing 100% shareholding of Splitska banka d.d., member of Société Générale Group signed on 20 December 2016 between OTP banka Hrvatska, the Croatian subsidiary of OTP Bank and Société Générale Group, on 2 May 2017 the financial closure of the transaction has been completed and Splitska banka was consolidated.

OTP banka Srbija a.d. Novi Sad signed an acquisition agreement on purchasing 100% shareholding held in the Serbian Vojvodjanska banka a.d. („VOBAN") and NBG Leasing d.o.o. and certain other Serbian exposures held by the Group of the National Bank of Greece S.A. on 4 August 2017. The financial closure of the transaction has been completed on 1 December 2017 and VOBAN and NBG Leasing d.o.o. were consolidated.

The fair value of the assets and liabilities acquired, and the related negative goodwill (gain from bargain purchase, which was reasoned by the market situation of the banking sector in the relevant countries) is as follows:

	VOBAN and NBG Leasing d.o.o.	Splitska banka group
Cash amounts and due from banks	(25,942)	(16,896)
Placements with other banks, net of loss allowance for placements and balances with the National Banks	(42,707)	(204,139)
Financial assets at fair value through profit or loss	(132)	(146)
Securities at fair value through other comprehensive income	(42,620)	(177,587)
Loans, net of loss allowance for loans	(208,240)	(668,732)
Associates and other investments	(282)	(10,002)
Securities at amortized cost	-	-
Property and equipment	(18,134)	(9,613)
Intangible assets	(1,746)	(1,436)
Other assets	(4,615)	(22,918)
Amounts due to banks, the Hungarian Government, deposits from the National Banks	11,372	84,591
Deposits from customers	270,424	840,352
Liabilities from issued securities	-	-
Held-for-trading derivative financial liabilities	32	439
Other liabilities	5,812	39,218
Subordinated bonds and loans	-	-
Net assets	**(56,778)**	**(146,869)**
Non-controlling interest	-	-
Negative goodwill	17,761	14,460
Cash consideration	**(39,017)**	**(132,409)**

NOTE 33: ACQUISITION (in HUF mn) [continued]

b) Analysis of net outflow of cash in respect of purchase of subsidiaries

	1 December 2017	30 April 2017
Cash consideration	(39,017)	(132,409)
Cash acquired	25,942	16,896
Net cash outflow	**(13,075)**	**(115,513)**

NOTE 34: SIGNIFICANT SUBSIDIARIES AND ASSOCIATES (in HUF mn)

The control is established when the Group has the right and exposure over the variable positive yield of the investee but the same time put up with the consequences of the negative returns and the Group by its decisions is able to influence the extent of the yields.
The Group primarily considering the following factors in the process of determining the existing of the control:
- investigation of the decision making mechanism of the entity,
- authority of the Board of Directors, Supervisory Board and General meeting based on the deed of association,
- existence of investments with preferential voting rights.

If the control can't be obviously determined then it should be supposed that the control does not exist.
Significant influence is presumed by the Group to exist – unless the contrary case is proven – when the Group holds 20% or more of the voting power of an investee but does not have a control.

Investments in companies in which the Bank has a controlling interest are detailed below. They are fully consolidated companies and incorporated in Hungary unless otherwise stated. The Bank considers the subsidiaries as cash generating units.

Significant subsidiaries

Name	Ownership (Direct and Indirect) 2018	2017	Activity
DSK Bank EAD (Bulgaria)	100.00%	100.00%	commercial banking services
OTP Bank JSC (Ukraine)	100.00%	100.00%	commercial banking services
JSC "OTP Bank" (Russia)	97.90%	97.90%	commercial banking services
OTP banka Hrvatska d.d. (Croatia)	100.00%	100.00%	commercial banking services
OTP Bank Romania S.A. (Romania)	100.00%	100.00%	commercial banking services
OTP banka Srbija a.d. (Serbia)	100.00%	98.90%	commercial banking services
Vojvodjanska banka a.d. Novi Sad (Serbia)	100.00%	100.00%	commercial banking services
OTP Banka Slovensko a. s. (Slovakia)	99.38%	99.38%	commercial banking services
OTP Financing Malta Company Ltd. (Malta)	100.00%	100.00%	refinancing activities
OTP Factoring Ltd.	100.00%	100.00%	work-out
OTP Mortgage Bank Ltd.	100.00%	100.00%	mortgage lending
OTP Real Estate Ltd.	100.00%	100.00%	real estate management and development
Merkantil Bank Ltd.	100.00%	100.00%	finance lease
OTP Building Society Ltd.	100.00%	100.00%	housing savings and loan
OTP Fund Management Ltd.	100.00%	100.00%	fund management
R.E. Four d.o.o. (Serbia)	100.00%	100.00%	
	real estate management		
Crnogorska komercijalna banka a.d. (Montenegro)	100.00%	100.00%	commercial banking services
OTP Financing Netherlands B.V. (the Netherlands)	100.00%	100.00%	refinancing activities

NOTE 34: SIGNIFICANT SUBSIDIARIES AND ASSOCIATES (in HUF mn) [continued]

Significant subsidiaries [continued]

Name	Ownership (Direct and Indirect) 2018	2017	Activity
OTP Holding Ltd. (Cyprus)	100.00%	100.00%	refinancing activities
OTP Financing Cyprus Ltd. (Cyprus)	100.00%	100.00%	refinancing activities
Bank Center No. 1. Ltd.	100.00%	100.00%	real estate lease
Inga Kettő Ltd.	100.00%	100.00%	property management
OTP Funds Servicing and Consulting Ltd.	100.00%	100.00%	fund services
OTP Real Estate Leasing Ltd. (previously OTP Flat Lease Ltd.)	100.00%	100.00%	real estate leasing
OTP Life Annuity Ltd.	100.00%	100.00%	life annuity services

Significant associates and joint ventures[1]

Most significant indicators of associates and joint ventures which are accounted for using equity method (Szallas.hu and D-ÉG Thermoset Ltd.) or accounted on cost (Company for Cash Services Ltd.) is as follows:

As at 31 December 2018

	Szallas.hu Ltd.	*D-ÉG Thermoset Ltd.*	*Company for Cash Services Ltd.*	*Total*
Total assets	2,135	3,883	2,377	**8,395**
Total liabilities	813	4,629	112	**5,554**
Shareholders' equity	1,322	(746)	2,265	**2,841**
Total revenues	4,172	2,386	1,136	**7,694**
Ownership	30%	0.10%	20%	

As at 31 December 2017

	Szallas.hu Ltd.	*D-ÉG Thermoset Ltd.*	*Company for Cash Services Ltd.*	*Total*
Total assets	1,667	3,883	2,289	**7,839**
Total liabilities	722	4,629	-	**5,351**
Shareholders' equity	945	(746)	2,289	**2,488**
Total revenues	3,459	2,386	127	**5,972**
Ownership	30%	0.10%	20%	

NOTE 35: TRUST ACTIVITIES (in HUF mn)

The Bank acts as a trustee for certain loans granted by companies or employers to their employees, mainly for housing purposes. The ultimate risk for these loans rests with the party advancing the funds. As these loans and related funds are not considered to be assets or liabilities of the Group, they have been excluded from the accompanying Consolidated Statement of Financial Position.

	2018	2017
The amount of loans managed by the Group as a trustee	38,647	39,413

[1] Based on unaudited financial statements.

NOTE 36: CONCENTRATION OF ASSETS AND LIABILITIES

	2018	2017
In the percentage of the total assets		
Receivables from, or securities issued by the Hungarian Government or the NBH	18.98%	21.69%

There were no other significant concentrations of the assets or liabilities of the Group as at 31 December 2018 or 2017.

The Group continuously provides the Authority with reports on the extent of dependency on large depositors as well as the exposure of the biggest 50 depositors towards the Group.

Further to this obligatory reporting to the Authority, the Group pays particular attention on the exposure of its largest partners and cares for maintaining a closer relationship with these partners in order to secure the stability of the level of deposits.

The organisational unit of the Group in charge of partner-risk management analyses the biggest partners on a constant basis and sets limits on the Bank's and the Group's exposure separately partner-by-partner. If necessary, it modifies partner-limits in due course thereby reducing the room for manoeuvring of the Treasury and other business areas

NOTE 37: CONSOLIDATED EARNINGS PER SHARE (in HUF mn)

Consolidated Earnings per share attributable to the ordinary shares of the Group are determined by dividing consolidated Net profit for the period attributable to ordinary shareholders, after the deduction of declared preference dividends, by the weighted average number of ordinary shares outstanding during the year. Dilutive potential ordinary shares are deemed to have been converted into ordinary shares.

	2018	2017
Consolidated net profit for the period attributable to ordinary shareholders (in HUF mn)	318,233	281,142
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	261,816,188	261,743,165
Basic Earnings per share (in HUF)	**1,215**	**1,074**
Consolidated net profit for the period attributable to ordinary shareholders (in HUF mn)	318,233	281,142
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	261,939,080	261,851,512
Diluted Earnings per share (in HUF)	**1,215**	**1,074**

	2018	2017
	Number of shares	
Weighted average number of ordinary shares	280,000,010	280,000,010
Average number of Treasury shares	18,183,822	18,256,845
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS	**261,816,188**	**261,743,165**
Dilutive effects of options issued in accordance with the remuneration policy and convertible into ordinary shares[1]	122,892	108,347
The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS	**261,939,080**	**261,851,512**

[1] Both in year 2018 and 2017 the dilutive effect is in connection with the Remuneration Policy and the Management Option Program.

NOTE 38: NET GAIN OR LOSS REALIZED ON FINANCIAL INSTRUMENTS (in HUF mn)

As at 31 December 2018

	Net interest gain and loss	Net non-interest gain and loss	Loss allowances	Other Comprehensive Income
Cash, amounts due from banks and balances with the National Banks	421	-	-	-
Placements with other banks, net of loss allowance for placements	7,248	-	(144)	-
Securities at fair value through profit or loss	-	598	-	-
Securities at fair value through other comprehensive income	37,912	301	820	(22,333)
Loans at amortized cost and at fair value	554,093	19,300	(39,143)	-
Securities at amortized cost	59,899	-	(212)	-
Other assets	3,964	-	-	-
Derivative financial instruments	25,634	9,409	-	-
Amounts due to banks , the Hungarian Government, deposits from the National Banks and other banks	(8,804)	-	-	-
Deposits from customers	(47,132)	197,547	-	-
Liabilities from issued securities	(6,343)	-	-	-
Subordinated bonds and loans	(2,169)	-	-	-
Total	**624,723**	**227,155**	**(38,679)**	**(22,333)**

As at 31 December 2017

	Net interest gain and loss	Net non-interest gain and loss	Loss allowances	Other Comprehensive Income
Cash, amounts due from banks and balances with the National Banks	1,444	-	-	-
Placements with other banks, net of loss allowance for placements	4,178	-	(228)	-
Securities at fair value through profit or loss	-	3,829	-	-
Securities at fair value through other comprehensive income	34,442	4,101	7	17,227
Loans at amortized cost and at fair value	513,919	19,218	(40,620)	-
Securities at amortized cost	56,343	-	3	-
Other assets	3,219	-	-	-
Derivative financial instruments	4,079	5,617	-	-
Amounts due to banks , the Hungarian Government, deposits from the National Banks and other banks	(9,308)	-	-	-
Deposits from customers	(46,574)	178,168	-	-
Liabilities from issued securities	(5,727)	-	-	-
Subordinated bonds and loans	(2,259)	-	-	-
Total	**553,756**	**210,933**	**(40,838)**	**17,227**

NOTE 39: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn)

In determining the fair value of a financial asset or liability the Group in the case of instruments that are quoted on an active market uses the market price. In most cases market price is not publicly available so the Group has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 39. d) for more information about fair value classes applied for financial assets and liabilities measured at fair value in these financial statements.

To provide a reliable estimate of the fair value of those financial instrument that are originally measured at amortized cost, the Group used the discounted cash-flow analyses (loans, placements with other banks, amounts due to banks, deposits from customers). The fair value of issued securities and subordinated bonds is based on quoted prices (e.g. Reuters). Cash and amounts due from banks and balances with the National Banks represent amounts available immediately thus the fair value equals to the cost.

The assumptions used when calculating the fair value of financial assets and liabilities when using valuation technique are the following:

- the discount rates are the risk free rates related to the denomination currency adjusted by the appropriate risk premium as of the end of the reporting period,
- the contractual cash-flows are considered for the performing loans and for the non-performing loans, the amortized cost less impairment is considered as fair value,
- the future cash-flows for floating interest rate instruments are estimated from the yield curves as of the end of the reporting period,
- the fair value of the deposit which can be due in demand cannot be lower than the amount payable on demand.

Classes of assets and liabilities not measured at fair value in the statement of financial position, the income approach was used to convert future cash-flows to a single current amount. Fair value of current assets is equal to carrying amount, fair value of liabilities from issued securities and other bond-type classes of assets and liabilities not measured at fair value measured based on Reuters market rates, and fair value of other classes not measured at fair value of the statement of financial position is measured at discounted cash-flow method. Fair value of loans, net of loss allowance for loans measured at discount rate adjustment technique, the discount rate is derived from observed rates of return for comparable assets or liabilities that are traded in the market.

Fair value measurements – in relation to instruments measured not at fair value – are categorized in level 2 of the fair value hierarchy.

NOTE 39: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn)

a) Fair value of financial assets and liabilities

	2018		2017	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Cash, amounts due from banks and balances with the National Banks	1,547,272	1,547,272	1,198,045	1,195,075
Placements with other banks, net of loss allowance for placements	420,606	419,458	462,180	474,585
Financial assets at fair value through profit or loss	181,356	181,356	344,417	344,417
Securities at fair value through profit or loss	*77,951*	*77,951*	*259,263*	*259,263*
Fair value of derivative financial assets held for trading	*103,405*	*103,405*	*85,154*	*85,154*
Securities at fair value through other comprehensive income	1,883,849	1,883,849	2,174,718	2,174,718
Loans at amortized cost and at fair value[1]	8,066,593	8,559,132	6,987,834	7,458,834
Securities at amortized cost	1,740,520	1,810,096	1,310,331	1,419,123
Derivative financial assets designated as hedge accounting	15,201	15,201	10,277	10,277
Other financial assets[2]	54,666	54,666	53,518	53,518
Financial assets total	**13,910,063**	**14,471,030**	**12,541,320**	**13,130,547**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	392,706	382,041	472,068	464,194
Deposits from customers	11,285,085	11,274,889	10,233,471	10,221,086
Liabilities from issued securities	417,966	488,905	250,320	367,678
Held-for-trading derivative financial liabilities	73,316	73,316	69,874	69,874
Derivative financial liabilities designated as hedge accounting	7,407	7,407	17,199	17,199
Other financial liabilities[3]	142,663	142,663	122,812	122,812
Subordinated bonds and loans	81,429	72,623	76,028	72,890
Financial liabilities total	**12,400,572**	**12,441,844**	**11,241,772**	**11,335,733**

[1] Higher discount rate due to the lower yield environment resulted in higher fair value comparing to the carrying values.
[2] Other financial assets contain trade receivables, prepayments and accrued income and receivables from investment services.
[3] Other financial liabilities contain account payables, deferrals and liabilities from investments services.

NOTE 39: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

b) Fair value of derivative instruments

The Group regularly enters into hedging transactions in order to decrease its financial risks. However some economically hedging transaction do not meet the criteria to account for hedge accounting, therefore these transactions were accounted as derivatives held for trading.
The assessment of the hedge effectiveness (both for fair value hedges and cash flow hedges) to determine the economic relationship between the hedged item and the hedging instrument is accomplished with prospective scenario analysis via different rate shift scenarios of the relevant risk factor(s) of the hedged risk component(s). The fair value change of the hedged item and the hedging instrument is compared in the different scenarios. Economic relationship is justified if the change of the fair value of the hedged item and the hedging instrument are in the opposite direction and the absolute changes are similar amounts. The hedge ratio is determined as the ratio of the notional of the hedged item and the notional of the hedging instrument. The sources of hedge ineffectiveness are the not hedged risk components (e.g. change of cross currency basis spreads in case of interest rate risk hedges), slight differences in maturity dates and interest payment dates in case of fair value hedges, and differences between the carrying amount of the hedged item and the carrying amount of the hedging instrument in case of FX hedges (e.g. caused by interest rate risk components in the fair value of the hedging instrument).

The summary of the derivatives held for trading and derivatives designated as hedge accounting of the Group are as follows:

	Fair value	
	2018	**2017**
Interest rate swaps held for trading		
Positive fair value of interest rate swaps held for trading	44,120	33,377
Negative fair value of interest rate swaps held for trading	(27,956)	(30,453)
Foreign exchange swaps held for trading		
Positive fair value of foreign exchange swaps held for trading	31,994	18,047
Negative fair value of foreign exchange swaps held for trading	(27,120)	(14,745)
CCIRS held for trading		
Positive fair value of CCIRS held for trading	12,417	16,976
Negative fair value of CCIRS held for trading	(9,165)	(12,948)
Other derivative contracts held for trading		
Positive fair value of other derivative contracts held for trading	14,874	16,754
Negative fair value of other derivative contracts held for trading	(9,075)	(11,728)
Interest rate swaps designated as fair value hedge		
Positive fair value of interest rate swaps designated as fair value hedge	5,610	6,639
Negative fair value of interest rate swaps designated as fair value hedge	(6,458)	(17,199)
MIRS designated as cash-flow hedge		
Positive fair value of MIRS designated as cash-flow hedge	1,837	-
Negative fair value of MIRS designated as cash-flow hedge	(74)	-
CCIRS designated as fair value hedge		
Positive fair value of CCIRS designated as fair value hedge	4,003	3,638
Negative fair value of CCIRS designated as fair value hedge	(352)	-
Interest rate swaps designated as cash-flow hedge		
Positive fair value of interest rate swaps designated as cash-flow hedge	3,751	-
Negative fair value of interest rate swaps designated as cash-flow hedge	(523)	-
Derivative financial assets total	**118,606**	**95,431**
Derivative financial liabilities total	**(80,723)**	**(87,073)**
Derivative financial instruments total	**37,883**	**8,358**

NOTE 39: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Types of hedge accounting

Amount, timing and uncertainty of future cash flows – hedging instruments

Type of hedge	Type of risk	Type of instrument	Within one month	Within three months and over one month	Within one year and over three months	Within five years and over one year	More than five years	Total
Fair Value Hedge	**Interest rate risk**	**Interest rate swap**						
		HUF						
		Notional	-	-	163,114	289,600	368	**453,082**
		Average Interest Rate (%)	-	-	1.72%	1.73%	1.57%	
		EUR						
		Notional	10	-	-	187	27	**224**
		Average Interest Rate (%)	6.00%	-	-	0.54%	0.58%	
		USD						
		Notional	-	-	6	400	74	**480**
		Average Interest Rate (%)	-	-	2.68%	1.91%	2.22%	
Fair Value Hedge	**FX & IR risk**	**Cross currency interest rate swap**						
		EUR/HUF						
		Notional	-	1	-2	15	16	**30**
		Average Interest Rate (%)	(1.67%)	(1.58%)	(1.70%)	(1.61%)	(1.63%)	
		Average FX Rate	306.30	310.86	304.09	309.85	308.81	
Fair Value Hedge	**FX risk**	**Cross currency interest rate swap**						
		RON/HUF						
		Notional	-	-	-	1,200	-	**1,200**
		Average FX Rate	-	-	-	68.66	-	
		RUB/HUF						
		Notional	-	-	-	7,000	-	**7,000**
		Average FX Rate	-	-	-	4.23	-	

NOTE 39: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Types of hedge accounting [continued]

Amount, timing and uncertainty of future cash flows – hedging instruments [continued]

Type of hedge	Type of risk	Type of instrument	Within one month	Within three months and over one month	Within one year and over three months	Within five years and over one year	More than five years	Total
Fair Value Hedge	**Other**	**Interest rate swap**						
		HUF						
		Notional	-	2,879	1,776	30,479	837	**35,971**
Cash flow Hedge	**Interest rate risk**	**Interest rate swap**						
		HUF						
		Notional	-	-	-	24,388	56,054	**80,442**
		Average FX Rate	-	-	-	1.77	2.46	

Derivative financial instruments designated as hedge accounting as follows:

Type of hedge	Type of instrument	Type of risk	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument for the year ended 2018		Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge ineffectiveness for the year ended 2018
				Assets	Liabilities		
Fair value hedge							
	Interest rate swap	Interest rate risk	661,704	2,649	(6,051)	Derivative financial instruments designated as hedge accounting	1,551
	Cross-currency swap	FX & IR risk	12,998	735	(181)	Derivative financial instruments designated as hedge accounting	(160)
	Cross-currency swap	FX risk	115,060	4,003	(170)	Derivative financial instruments designated as hedge accounting	(438)
	Interest rate swap	Other	38,834	1,818	-	Derivative financial instruments designated as hedge accounting	(3)
Cash flow hedge							
	Interest rate swap	Interest rate risk	173,600	5,588	(597)	Derivative financial instruments designated as hedge accounting	(278)

NOTE 39: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Types of hedge accounting [continued]

Derivative financial instruments designated as hedge accounting as follows [continued]

Type of hedge	Type of risk	Carrying amount of the hedged item for the year ended 2018		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item for the year ended 2018		Line item in the statement of financial position in which the hedged item is included
		Assets	Liabilities	Assets	Liabilities	
Fair value hedges						
- Loans	***Interest rate risk***	25,958	-	(162)	-	Loans
- Government bonds	***Interest rate risk***	1,236,599	-	(2,298)	-	Securities at amortised cost
- Government bonds	***Interest rate risk***	101,707	-	(280)	-	Securities at fair value through other comprehensive income
- Government bonds	***Interest rate risk***	1,891	-	(1,563)	-	Financial assets at fair value through profit or loss
- Other securities	***Interest rate risk***	185,576	-	(68)	-	Securities at fair value through other comprehensive income
- Loans	***FX & IR risk***	13,308	-	7	-	Loans
- Loans	***FX risk***	103,905	-	(590)	-	Loans
- Other securities	***Other risk***	-	(35,716)	-	5,978	Liabilities from issued securities
Fair value hedges total		**1,668,944**	**(35,716)**	**(4,954)**	**5,978**	
Cash flow hedges						
- Loans	***Interest rate risk***	-	(17)	1,100	-	Due to banks

Type of instrument	Type of risk	Change in the value of the hedging instrument recognised in cash flow hedge reserve	Hedge effectiveness recognised in profit or loss	Line item in profit or loss that includes hedge ineffectiveness
Interest rate swap	Interest rate risk	(17)	17	Interest income from placements with other banks, net of allowance for placement losses

NOTE 39: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

d) Fair value levels

Methods and significant assumptions used to determine fair value of the different levels of financial instruments:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly. Fair value measurements – in relation with instruments measured not at fair value – are categorized in level 2;
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

As at 31 December 2018	**Total**	**Level 1**	**Level 2**	**Level 3**
Financial assets at fair value through profit or loss	180,969	72,676	108,293	-
from this: securities at fair value through profit or loss	77,564	72,377	5,187	-
from this: positive fair value of derivative financial assets held for trading	103,405	299	103,106	-
Securities at fair value through other comprehensive income	1,863,035	1,453,683	398,662	10,690[1]
Loans mandatorily measured at fair value through profit or loss	34,525	-	-	34,525
Positive fair value of derivative financial assets designated as fair value hedge	9,613	-	9,613	-
Positive fair value of derivative financial assets designated as cash-flow hedge	5,588	-	5,588	-
Financial assets measured at fair value total	**2,093,730**	**1,526,359**	**522,156**	**45,215**
Financial liabilities at fair value through profit or loss	32,231	-	-	32,231
Negative fair value of held-for-trading derivative financial liabilities	73,316	1,294	72,022	-
Negative fair value of derivative financial liabilities designated as fair value hedge	6,810	-	6,810	-
Negative fair value of derivative financial liabilities designated as cash-flow hedge	597	-	597	-
Financial liabilities measured at fair value total	**112,954**	**1,294**	**79,429**	**32,231**

As at 31 December 2017	**Total**	**Level 1**	**Level 2**	**Level 3**
Financial assets at fair value through profit or loss	340,749	159,049	181,700	-
from this: securities at fair value through profit or loss	255,595	158,769	96,826	-
from this: positive fair value of derivative financial assets held for trading	85,154	280	84,874	-
Securities at fair value through other comprehensive income	2,151,973	1,693,738	448,397	9,838[1]
Positive fair value of derivative financial assets designated as fair value hedge	10,277	-	10,277	-
Financial assets measured at fair value total	**2,502,999**	**1,852,787**	**640,374**	**9,838**
Negative fair value of held-for-trading derivative financial liabilities	69,874	188	69,686	-
Negative fair value of derivative financial liabilities designated as fair value hedge	17,199	-	17,199	-
Financial liabilities measured at fair value total	**87,073**	**188**	**86,885**	**-**

[1] The portfolio includes Visa Inc. "C" convertible preferred stock and common shares.

NOTE 39: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

d) Fair value levels [continued]

Movements in Level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amount of Level 3 securities at fair value through other comprehensive income which are recorded at fair value:

Movement on securities at fair value through other comprehensive income in Level 3	Opening balance	Increase / (Decrease)	Closing balance
OTP Bank Plc.	2,410	736	**3,146**
DSK Bank EAD	2,147	307	**2,454**
OTP Factoring Ltd.	2,179	84	**2,263**
OTP banka Hrvatska d.d.	488	578	**1,066**
OTP Factoring Ukraine LLC	713	(28)	**685**
OTP Bank Romania S.A.	437	134	**571**
OTP Banka Slovensko a.s.	385	120	**505**
Splitska banka d.d.	1,079	(1,079)	**-**
Total	**9,838**	**852**	**10,690**

There were no movements among the levels of fair value hierarchy neither in the year ended 31 December 2018 nor for the year ended 31 December 2017.

NOTE 40: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS (in HUF mn)

The Group distinguishes business and geographical segments. The report on the base of the business and geographical segments is reported below.

The reportable segments of the Group on the base of IFRS 8 are the following:
OTP Core Hungary, Russia, Ukraine, Bulgaria, Romania, Serbia, Croatia, Slovakia, Montenegro, Leasing subsidiaries, Asset Management subsidiaries, Other subsidiaries and Corporate Center.

OTP Core is an economic unit for measuring the result of core business activity of the Group in Hungary. Financials for OTP Core are calculated from the partially consolidated financial statements of the companies engaged in the Group's underlying banking operation in Hungary. These companies include OTP Bank Hungary Plc., OTP Mortgage Bank Ltd., OTP Building Society Ltd., OTP Factoring Ltd., OTP Financial Point Ltd., and companies providing intragroup financing. The Bank Employee Stock Ownership Plan Organization was included from the fourth quarter of 2016; OTP Card Factory Ltd., OTP Facility Management Llc., Monicomp Ltd. and OTP Real Estate Lease Ltd. were included from the first quarter of 2017. The consolidated accounting results of these companies are segmented into OTP Core and Corporate Centre. Latter is a virtual entity.

Within the Group, the Corporate Centre acts as a virtual entity established by the equity investment of OTP Core for managing the wholesale financing activity for all the subsidiaries within the Group but outside OTP Core. Therefore the balance sheet of the Corporate Centre is funded by the equity and intragroup lending received from OTP Core, the intragroup lending received from other subsidiaries, and the subordinated debt and senior notes arranged by OTP under its running EMTN program. From this funding pool, the Corporate Centre is to provide intragroup lending to, and hold equity stakes in OTP subsidiaries outside OTP Core. Main subsidiaries financed by Corporate Centre are as follows: Hungarians: Merkantil Bank Ltd, Merkantil Leasing Ltd, OTP Fund Management Ltd, OTP Real Estate Fund Management Ltd, OTP Life Annuity Ltd; foreigners: banks, leasing companies, factoring companies.

The results of OTP Factoring Ukraine LLC, OTP Factoring SRL, OTP Factoring Bulgaria LLC, OTP Factoring Serbia d.o.o., OTP Factoring Montenegro d.o.o. and OTP Factoring Slovensko s.r.o. are included into the foreign banks segment.

The activities of the other subsidiaries are out of the leasing and fund management activity, such as: OTP Real Estate Ltd., OTP Life Annuity Ltd, OTP Funds Servicing and Consulting Ltd., OTP Building s.r.o., OTP Real Slovensko s.r.o.

The reportable business and geographical segments of the Group are those components where:

- separated incomes and ex penses, assets and liabilities can be identified and assignable to the segments,
- transactions between the different segments were eliminated,
- the main decisive board of the Group regularly controls the operating results,
- separated financial information is available.

Goodwill / investment impairment and their tax saving effect:

As at 31 December 2018 HUF 4,136 million tax shield was recognized due to impairment on investment, which affect was partly compensated by HUF 2,903 million release of impairment. Altogether with HUF 5,962 million goodwill impairment on OTP Real Estate Lease Ltd. and Monicomp Ltd. negative tax effect was recognized in the amount of HUF 4,729 million. In year 2017 HUF 1,824 million impairment on investment and HUF 7,384 million release of impairment with HUF 504 million goodwill impairment on OTP Banka Slovensko a.s. altogether resulted in HUF 6,064 million negative tax effect.

Information regarding the Group's reportable segments is presented below:

NOTE 40: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS (in HUF mn) [continued]

As at 31 December 2018

Main components of the Consolidated Statement of Profit or Loss in HUF million	OTP Group - consolidated - in the Consolidated Statement of Profit or Loss - structure of accounting reports	Adjustments on the accounting in Recognized Income	OTP Group - consolidated - in the Consolidated Statement of Profit or Loss - structure of management reports	OTP CORE (Hungary)	Foreign banks subtotal (without adjustments)	JSC "OTP Bank" (Russia) and Touch Bank	OTP Bank JSC (Ukraine)	DSK Bank EAD (Bulgaria)	OTP Bank Romania S.A. (Romania)	OTP banka Srbija a.d. and Vojvodjanska banka a.d. (Serbia)	OTP banka Hrvatska d.d. (Croatia)	OTP Banka Slovensko a.s. (Slovakia)	Crnogorska komercijalna banka a.d. (Montenegro)	Non-banking subsidiaries subtotal	Leasing subsidiaries	Asset Management subsidiaries	Other subsidiaries	Corporate Centre	Eliminations and adjustments
	a	b	1=a+b 1= 2+3+12+16+17	2	3=4+…+11	4	5	6	7	8	9	10	11	12=13+14+15	13	14	15	16	17
Net profit for the year	**318,322**		**318,322**																
Adjustments (total)		**(7,014)**	**(7,014)**																
Dividends and net cash transfers (after income tax)		457	457																
Goodwill /investment impairment (after income tax)		(4,729)	(4,729)																
Bank tax on financial institutions (after income tax)		(15,286)	(15,286)																
Effect of acquisition (after income tax)		(6,844)	(6,844)																
Impact of fines imposed by the Hungarian Competition Authority (after income tax)		565	565																
Initial NPV gain on the monetary policy interest rate swap (MIRS) deals (after income tax)		18,823	18,823																
Consolidated adjusted net profit for the year	**318,322**	**7,012**	**325,334**	**180,445**	**122,195**	**16,421**	**24,414**	**47,295**	**3,850**	**2,999**	**24,960**	**43**	**2,213**	**15,976**	**9,828**	**4,159**	**1,989**	**6,189**	**526**
Profit before income tax	**352,159**	**10,575**	**362,734**	**195,162**	**143,086**	**21,035**	**29,174**	**51,603**	**4,901**	**3,137**	**30,598**	**99**	**2,539**	**16,840**	**9,780**	**4,572**	**2,488**	**6,924**	**718**
Adjusted operating profit	**391,446**	**(6,537)**	**384,909**	**144,578**	**213,538**	**68,879**	**30,094**	**57,097**	**10,585**	**6,227**	**35,455**	**2,597**	**2,604**	**18,902**	**10,180**	**4,447**	**4,275**	**6,924**	**961**
Adjusted total income	964,727	(83,001)	881,726	378,534	449,963	129,900	47,144	107,817	30,759	30,306	78,295	15,013	10,729	53,364	20,261	7,653	25,450	7,350	(7,489)
Adjusted net interest income	624,723	(24,892)	599,831	245,934	322,168	102,489	33,040	69,979	23,410	20,514	54,059	11,148	7,529	23,269	19,043	31	4,195	7,350	1,110
Fee and commission income related to lending	22,915	0	22,915	5,482	16,939	10,146	1,530	2,686	706	317	751	777	26	667	667	0	0	0	(174)
Fee and commission income related to deposit and account maintenance	144,942	0	144,942	94,744	51,054	6,274	4,376	16,515	2,513	5,662	10,748	2,483	2,483	57	57	0	0	0	(913)
Fee and commission related to bank cards	94,395	0	94,395	65,447	29,511	5,375	4,997	6,649	1,671	1,832	5,962	985	2,040	0	0	0	0	0	(565)
Fee and commission income related to security trading	19,448	0	19,448	22,452	5,596	1	82	4,340	0	93	1,021	7	52	0	0	0	0	0	(8,601)
Other fee and commission income	56,381	(56,958)	(577)	(45,768)	23,317	11,306	3,907	2,828	787	643	2,750	745	351	22,927	859	14,409	7,659	0	(1,053)
Fee and commission income	338,081	(56,958)	281,123	142,357	126,417	33,102	14,892	33,018	5,677	8,547	21,232	4,997	4,952	23,651	1,583	14,409	7,659	0	(11,306)
Fee and commission expenses	(60,405)	14	(60,391)	(35,347)	(24,120)	(6,335)	(3,449)	(2,583)	(2,114)	(1,262)	(5,190)	(1,462)	(1,725)	(10,997)	(704)	(6,566)	(3,727)	0	10,072
Adjusted net profit from fees and commissions	277,676	(56,944)	220,732	107,010	102,297	26,767	11,443	30,435	3,563	7,285	16,042	3,535	3,227	12,654	879	7,843	3,932	0	(1,234)
Adjusted other net non-interest income	62,328	(1,165)	61,163	25,590	25,498	644	2,661	7,403	3,786	2,507	8,194	330	(27)	17,441	339	(221)	17,323	0	(7,365)
Adjusted other administrative expenses	(573,281)	76,464	(496,817)	(233,956)	(236,425)	(61,021)	(17,050)	(50,720)	(20,174)	(24,079)	(42,840)	(12,416)	(8,125)	(34,462)	(10,081)	(3,206)	(21,175)	(426)	8,450
Total risk costs	**(39,287)**	**13,119**	**(26,168)**	**46,591**	**(70,452)**	**(47,844)**	**-920**	**(5,494)**	**(5,684)**	**(3,090)**	**(4,857)**	**(2,498)**	**(65)**	**(2,062)**	**(400)**	**125**	**(1,787)**	**0**	**(243)**
Adjusted provision for impairment on loan and placement losses (without the effect of revaluation of FX)	(39,287)	20,004	(19,283)	48,192	(67,027)	(42,204)	(1,680)	(9,532)	(4,794)	(3,146)	(3,046)	(2,579)	(46)	(145)	(174)	0	29	0	(301)
Other provision (adjustment)	0	(6,885)	(6,885)	(1,601)	(3,425)	(5,640)	760	4,038	(890)	56	(1,811)	81	(19)	(1,917)	(226)	125	(1,816)	0	58
Total other adjustments (one-off items)[1]	0	3,993	**3,993**	3,993	**0**	0	0	0	0	0	0	0	0	**0**	0	0	0	0	0
Income tax	(33,837)	(3,563)	**(37,400)**	(14,717)	**(20,891)**	(4,614)	(4,760)	(4,308)	(1,051)	(138)	(5,638)	(56)	(326)	**(864)**	48	(413)	(499)	(735)	(192)
Total Assets	**14,590,288**	**0**	**14,590,288**	**8,563,425**	**7,358,790**	**707,593**	**391,240**	**2,381,275**	**771,968**	**590,166**	**1,837,158**	**454,498**	**224,892**	**919,149**	**605,279**	**19,461**	**294,409**	**2,147,905**	**(4,398,983)**
Total Liabilities	**12,763,631**	**0**	**12,763,631**	**7,001,737**	**6,217,042**	**559,595**	**333,419**	**1,927,384**	**711,922**	**505,318**	**1,568,032**	**425,116**	**186,256**	**686,953**	**555,596**	**2,690**	**128,667**	**1,065,755**	**(2,207,856)**

( ) used at: provisions, impairment and expenses

[1] One-off item in the total amount consists the result of the treasury share swap agreement at OTP Core.

NOTE 40: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS (in HUF mn) [continued]

As at 31 December 2017

Main components of the Consolidated Statement of Profit or Loss in HUF million	OTP Group - consolidated - in the Consolidated Statement of Profit or Loss - structure of accounting reports	Adjustments on the accounting in Recognized Income	OTP Group - consolidated - in the Consolidated Statement of Profit or Loss - structure of management reports	OTP CORE (Hungary)	Foreign banks subtotal (without adjustments)	JSC "OTP Bank" (Russia) and Touch Bank	OTP Bank JSC (Ukraine)	DSK Bank EAD (Bulgaria)	OTP Bank Romania S.A. (Romania)	OTP banka Srbija a.d. and Vojvodjanska banka a.d. (Serbia)	OTP banka Hrvatska d.d. (Croatia)	OTP Banka Slovensko a.s. (Slovakia)	Crnogorska komercijalna banka a.d. (Montenegro)	Non-banking subsidiaries subtotal	Leasing subsidiaries	Asset Management subsidiaries	Other subsidiaries	Corporate Centre	Eliminations and adjustments
	a	b	1=a+b 1= 2+3+12+16+17	2	3=4+…+11	4	5	6	7	8	9	10	11	12=13+14+15	13	14	15	16	17
Net profit for the year	**281,339**		**281,339**																
Adjustments (total)		**(2,732)**	**(2,732)**																
Dividends and net cash transfers (after income tax)		680	680																
Goodwill /investment impairment (after income tax)		(6,064)	(6,064)																
Bank tax on financial institutions (after income tax)		(15,233)	(15,233)																
Effect of acquisition (after income tax)		177	177																
Impact of fines imposed by the Hungarian Competition Authority (after income tax)		17,708	17,708																
Consolidated adjusted net profit for the year	**281,339**	**2,733**	**284,072**	**168,576**	**96,652**	**20,381**	**14,120**	**47,121**	**3,035**	**(2,905)**	**17,107**	**(2,051)**	**(156)**	**18,062**	**9,836**	**8,678**	**(452)**	**195**	**587**
Profit before income tax	**322,842**	**(1,421)**	**321,421**	**185,562**	**115,015**	**26,079**	**17,074**	**52,041**	**3,951**	**(3,014)**	**20,849**	**(1,820)**	**(145)**	**19,894**	**10,453**	**9,500**	**(59)**	**584**	**366**
Adjusted operating profit	**363,690**	**(531)**	**363,159**	**150,834**	**192,737**	**64,497**	**18,876**	**61,460**	**9,345**	**1,360**	**28,781**	**6,616**	**1,802**	**16,655**	**8,410**	**9,229**	**(984)**	**3,114**	**(181)**
Adjusted total income	863,140	(58,195)	804,945	365,592	398,148	127,249	34,595	108,290	27,137	10,071	63,645	17,452	9,709	46,095	18,013	12,450	15,632	3,407	(8,297)
Adjusted net interest income	553,756	(7,102)	546,654	234,304	289,639	103,094	23,060	72,257	19,779	7,235	44,313	13,358	6,543	19,187	16,887	47	2,253	3,407	117
Fee and commission income related to lending	26,168	0	26,168	10,162	15,669	8,337	1,004	3,544	687	254	584	927	332	576	576	0	0	0	(239)
Fee and commission income related to deposit and account maintenance	126,280	0	126,280	84,843	41,942	6,303	4,045	14,500	2,310	1,717	8,172	2,610	2,285	59	59	0	0	0	(563)
Fee and commission related to bank cards	84,282	0	84,282	60,066	24,338	5,662	3,663	5,891	1,394	710	4,515	741	1,762	0	0	0	0	0	(121)
Fee and commission income related to security trading	25,005	0	25,005	28,007	4,795	1	68	3,902	0	11	774	7	32	0	0	0	0	0	(7,797)
Other fee and commission income	53,871	(51,770)	2,101	(41,480)	20,171	10,055	3,166	2,526	696	332	2,414	647	335	24,865	613	19,208	5,044	0	(1,456)
Fee and commission income	315,606	(51,770)	263,836	141,598	106,915	30,358	11,946	30,363	5,087	3,024	16,459	4,932	4,746	25,500	1,248	19,208	5,044	0	(10,176)
Fee and commission expenses	(54,413)	5	(54,408)	(32,469)	(21,462)	(7,223)	(2,230)	(2,649)	(2,024)	(749)	(3,855)	(1,305)	(1,427)	(10,157)	(939)	(6,782)	(2,436)	0	9,679
Adjusted net profit from fees and commissions	261,193	(51,765)	209,428	109,129	85,453	23,135	9,716	27,714	3,063	2,275	12,604	3,627	3,319	15,343	309	12,426	2,608	0	(497)
Adjusted other net non-interest income	48,191	672	48,863	22,159	23,056	1,020	1,819	8,319	4,295	561	6,728	467	(153)	11,565	817	(23)	10,771	0	(7,917)
Adjusted other administrative expenses	(499,450)	57,664	(441,786)	(214,758)	(205,411)	(62,752)	(15,719)	(46,830)	(17,792)	(8,711)	(34,864)	(10,836)	(7,907)	(29,440)	(9,603)	(3,221)	(16,616)	(293)	8,116
Total risk costs	**(40,848)**	**(4,835)**	**(45,683)**	**30,783**	**(77,722)**	**(38,418)**	**-1,802**	**(9,419)**	**(5,394)**	**(4,374)**	**(7,932)**	**(8,436)**	**(1,947)**	**3,239**	**2,043**	**271**	**$925**	**(2,530)**	**547**
Adjusted provision for impairment on loan and placement losses (without the effect of revaluation of FX)	(40,848)	9,789	(31,059)	33,586	(67,107)	(37,561)	(1,060)	(3,571)	(5,062)	(3,133)	(7,498)	(8,358)	(864)	1,921	1,951	0	(30)	0	541
Other provision (adjustment)	0	(14,624)	(14,624)	(2,803)	(10,615)	(857)	(742)	(5,848)	(332)	(1,241)	(434)	(78)	(1,083)	1,318	92	271	955	(2,530)	6
Total other adjustments (one-off items)[1]	0	3,945	**3,945**	3,945	**0**	0	0	0	0	0	0	0	0	**0**	0	0	0	0	0
Income tax	(41,503)	4,154	**(37,349)**	(16,986)	**(18,363)**	(5,698)	(2,954)	(4,920)	(916)	109	(3,742)	(231)	(11)	**(1,832)**	(617)	(822)	(393)	(389)	221
Total Assets	**13,190,228**	**0**	**13,190,228**	**7,704,135**	**6,488,032**	**671,724**	**312,334**	**1,925,740**	**624,060**	**482,887**	**1,821,613**	**452,084**	**197,590**	**813,667**	**528,453**	**23,095**	**262,119**	**1,674,411**	**(3,490,017)**
Total Liabilities	**11,550,173**	**0**	**11,550,173**	**6,273,879**	**5,635,488**	**529,369**	**278,254**	**1,675,445**	**570,578**	**402,817**	**1,582,678**	**419,884**	**176,463**	**603,149**	**488,288**	**2,845**	**112,016**	**826,037**	**(1,788,380)**

( ) used at: provisions, impairment and expenses

[1] One-off item consists of: the result of the treasury share swap agreement at OTP Core in the amount of HUF 3,945 million.

NOTE 41: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2018

Term Note Program

See details in Note 16.

NOTE 42: POST BALANCE SHEET EVENTS

1) New acquisition in Albania

On 1 August, 2018 the Bank signed an acquisition agreement on purchasing 88.89% shareholding of Banka Societe Generale Albania SH. A. (**„SGAL**”), the Albanian subsidiary of Société Générale Group. With a market share of nearly 6%, SGAL is the 5th largest bank on the Albanian banking market and as a universal bank it has been active in the retail and corporate segment as well. The financial closing of the transaction is expected in the first half year of 2019 subject to obtaining all the necessary regulatory approvals.

2) New acquisition in Bulgaria

The financial closure of the transaction, based on the acquisition agreement on purchasing 99.74% shareholding of Societe Generale Expressbank („SGEB”), the Bulgarian subsidiary of Societe Generale Group (“SG”), and other local subsidiaries held by SGEB, between Societe Generale Group and DSK Bank EAD (“DSK Bank”), the Bulgarian subsidiary of OTP, has been completed on 15 January 2019. The acquisition agreement between SG and DSK Bank was signed on 1 August 2018. With a market share of approximately 6.4% Societe Generale Expressbank is the 7th largest bank on the Bulgarian banking market and as a universal bank it has been active in the retail and corporate segment as well. The integration process is expected to be completed in 2020.

3) New acquisition in Moldova

On 5 February, 2019 the Bank signed an acquisition agreement on purchasing 87.85% shareholding of Mobiasbanca – Groupe Societe Generale S.A. („SGMB”), the Moldovan subsidiary of Societe Generale Group. With a market share of 13.3%, SGMB is the 4th largest bank on the Moldovan banking market and as a universal bank it has been active in the retail and corporate segment as well. The financial closure of the transaction is expected in the coming months subject to obtaining all the necessary regulatory approvals.

4) New acquisition in Serbia

On 19 December, 2018 the Bank signed an acquisition agreement on purchasing 100% shareholding of Societe Generale Banka Srbija a.d. („SGS”), the Serbian subsidiary of Societe Generale Group and all subsidiaries held by SGS. With a market share of 8.4% based on total assets, SGS is the 4th largest bank on the Serbian banking market and as a universal bank it has been active in the retail and corporate segment as well. The financial closing of the transaction is expected in the first half year of 2019 subject to obtaining all the necessary regulatory approvals.

5) New acquisition in Montenegro

Crnogorska komercijalna banka a.d., the Montenegrin subsidiary of OTP signed an acquisition agreement on purchasing 90.56% shareholding of Societe Generale banka Montenegro a.d. („SGM”), the Montenegrin subsidiary of Societe Generale Group. With a market share of 11.5%, SGM is the 4th largest bank on the Montenegrin banking market and as a universal bank it has been active in the retail and corporate segment as well. The financial closure of the transaction is expected in the coming months subject to obtaining all the necessary regulatory approvals.

NOTE 43: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE GROUP'S FINANCIALS (in HUF mn)

The **eurozone**'s annual growth rate slowed to 1.8% in 2018 according to preliminary data, down from a sky-rocketing 2.5% on yearly basis performance in 2017, and the storm clouds never stop gathering – in the form of intensifying trade war, the politics of Italy's new government, the faltering Brexit talks, the new emission rules in the auto industry, and Turkey's problems. At the beginning of 2018, the modest growth figures could be attributed to one-off or country-specific factors (e.g. the several-week-long railway strikes in France), it was not before the second half of the year when it became clear that the performance in year 2018 would be nowhere near the previous year's one, and the annualized quarterly growth rate slowed to less than 1% by the second half of the year. Based on the currently available data, the moderate performance owes a lot to the core countries, particularly Germany and Italy. Dancing on thin ice, Italy became less worrisome by the end of the year, but its new government still plans a string of fiscal loosening measures, and the resulting increase in public debt is not in sync with the EU's requirements, moreover, investors' confidence in financing the country's debt has wobbled. Although the EU's decision-makers approved the Brexit agreement drafted in November, the House of Commons of the UK Parliament rejected the bill several times, even though EU leaders repeatedly ruled out re-opening talks into the deal.

At the end of 2018, the European Central Bank ("ECB") phased out its asset purchase programme and thus launched the second monetary tightening – but seeing the eurozone's growth data, interest rate hikes –previously supposed to take place in the second half of 2019– now seem unlikely, and the ECB will be cautious about further tightening monetary conditions.

The growth rate in the **United States** may have been around 3.0% in 2018, but it is likely to slow in the near future. This is partly because the effect of the tax cut programme, which used to fuel growth, is now fading; besides, the trade war left its mark on the economy's performance, and its resolution is making no progress, despite the on-going negotiations. Thus the USA's import tariffs on Chinese goods worth USD 100 billion remain in place. Following the autumn elections, Republicans retained majority in Senate, but Democrats gained the upper hand in the House of Representatives. It did not take long for the two parties to clash, over the funding of the wall planned on the Mexican border, ultimately resulting in more-than-one-month-long government shutdown.

Meanwhile the Fed raised the benchmark rate four times in 2018 (to 2.25-2.5), but the post-meeting statements' language became increasingly cautious about the future schedule of tightening. In January 2019, the communication shifted markedly, by pointing out that in the light of global economic and financial events, central bankers will be flexible about unwinding the Fed's balance sheet and will be cautious in continuing the tightening cycle – this makes rate hikes in 2019 unlikely, and the reducing the balance sheet will be reduced slower than earlier planned.

Despite the fast deterioration in the external environment, **Hungary**'s full-year 2018 GDP growth rate surpassed expectations and our own forecast. The 4.8% growth rate marks the second fastest one in the history of Hungary (surpassed only in 2004) and in comparison to its regional peers (preceded by Poland only). Just like in 2017, this robust growth was largely driven by domestic demand – consumption expanded by 5%, and investment surged 17%, equally benefiting from EU-co-financed public investment projects and capacity-boosting private investment.

Following the peak in 2016, Hungary's current account surplus shrank further. Based on the latest figures, the surplus may have decreased to 1.3% of GDP, down from 6.3% in 2016 and 3.2% in 2017. Reasons include higher crude prices, the deterioration in Europe's business cycle, the subsiding exports owing to the new WLTP (Worldwide Harmonized Light Vehicles Test Procedure) measure, the rising import need of the strong domestic demand, and foreign-owned companies' higher profits also worsen the balance of income. Nevertheless, Hungary's net financing capacity still runs surplus, its net foreign direct investment inflow is positive, and net annual debt repayment reaches 3-4% of GDP. External debt is still shrinking, but it is average-sized in regional comparison.

Regarding Hungary's labour market, the trend that began in 2017 continued last year. Employment grew further and the unemployment rate fell to 3.7%. The shortage of labour causes capacity constraints in some segments of the labour market. Gross wages grew by more than 10% on yearly basis in the first 11 months of the year, but the accelerating inflation reduced real wages in the second half of the year, which left its mark on retail sales' growth pace as well.

NOTE 43: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE GROUP'S FINANCIALS (in HUF mn) [continued]

By the third quarter of 2018, Hungary's accrual-based four-quarter government deficit fell to 1.9% of GDP, thus the 2018 balance may have been around 2.2% of GDP, less than the official target of 2.4%. The central budget received more than HUF 1,000 billion EU funding in the fourth quarter, thus public debt may have shrunk to 71% of GDP by the end of the year.

Consumer prices grew by an average of 2.8% in 2018, up from 2.5% a year earlier. Inflation was a result of opposing effects. On the one hand, the combination of robust domestic demand, the wage growth caused by the tight labour market, an increase in seasonal food prices, and a pick-up in oil prices in the second half of the year have temporarily sent the consumer price index above 3%, but then oil prices declined, second-hand-car prices fell owing to the diesel emission scandal, and the base effects in some food products all dragged inflation down.

In line with the world's leading central banks, the tightening cycle began in some countries in Central and Eastern Europe (Romania and the Czech Republic). In the second half of 2018, the NBH's communication included multiple changes that pointed towards tightening the extremely loose monetary conditions – but no measures followed them.

The NBH's September meeting brought some change, when the central bank announced that, by transforming its monetary policy tools, the NBH is prepared for the gradual and cautious normalization of monetary policy: it abandoned 3-month deposit facility and the required reserve became the benchmark tool, ended the monetary policy interest rates swap ("MIRS") and the mortgage bond purchase program, but the FX swap volume was not fully wound down. As a new tool, the Funding for Growth fixed scheme was introduced, with an aim to increase the share of fixed-interest rate loans within the small and medium enterprises sector. As the global environment is likely to remain volatile, we expect the Central and Eastern Europe region's currency rates to see-saw, but the depreciation pressure on the forint is likely to ease. This January the NBH gave another strong signal, which points toward the beginning of the tightening, but the unpredictability of the external environment may provide reason for putting off normalization. The NBH's most recent forecast is based on 3.5% economic growth and 2.9% consumer price index for 2019.

The economy of **Russia** grew by 2.3% in 2018, beating market expectations by a large margin. Even though households' consumption slowed as the fiscal adjustment eroded their incomes, exports increased by a fairly robust rate of 6.3%. This latter benefited from a strong expansion in the export of mining products and cereals. Meanwhile, the accelerating construction output supported gross capital formation. Price pressure intensified as inflation accelerated from 2.3% in June to 4.3% in December. This is mostly because of the higher food prices, as harvest in 2018 deteriorated from the previous year. Meanwhile Russia ran a budget surplus of 2.7% of GDP, for the first time since 2008, thanks to an increase in oil prices compared to 2017, and as a result of the stringent budget. Simultaneously, the current account surplus hit a record high at 7% of GDP. The growing FX revenues have boosted international reserves (to USD 468 billion by the end of the year) and helped the budget to replenish its reserve fund.

Citing the higher inflationary pressure and risk premium, the Central Bank of Russia embarked on a monetary tightening in the second half of 2018. The VAT hike in 2019 may send inflation much higher than the central bank's target of 5-5.5%. In addition, the new American sanctions added to the risk premium on Russian assets, causing a depreciation pressure on the currency market, which the Central Bank of Russia also took into consideration.

Looking forward, Russia's GDP growth rate is likely to slow to 1.8% this year, as the VAT hike adversely affects retail consumption. Meanwhile, exports may slow as Russia's joining OPEC's agreement reduces oil production, while the export of cereals may also drop. Furthermore, the strict fiscal and monetary policies do not support growth either. Nevertheless, spending on infrastructure is expected to speed up investment. The better-than-expected 2018 figure poses an upside risk to this year's forecast, while any further US sanction would worsen economic outlook.

The biggest problem of Russia's economy is the low diversification of production, and the resulting weak long-term growth potential of 1.5-2.0%, which is rather low compared to its level of development. Nonetheless, the new three-year budget comes with ambitious reform plans (e.g. infrastructure development, raising the retirement age), the combined effect of which may bring medium-term growth outlook closer to 2%.

NOTE 43: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE GROUP'S FINANCIALS (in HUF mn) [continued]

Ukraine's economy expanded by around 3% in 2018, with domestic demand being the engine of growth. Although the strong investment dynamics subsided by the second half of the year, the rising wages and the remittances by migrant workers boosted consumption. In the first nine months of the year, consumption surged 7% from the same period of 2017. We expect the economy to have grown by 3.2% in full-year 2018, which may slow to 2.7% by 2019, as both domestic demand and the world economy's growth lose speed.

The rate of inflation had slowed to 10.9% (from 14.5% in 2017), somewhat overshooting the central bank's expectation. Citing this, and also as the risks surrounding the International Monetary Fund ("IMF") programme have increased, the National Bank of Ukraine raised the base rate from 14.5% to 18%. In the first half of the year, the USD/UAH was stable around 26, but the uncertainty about the IMF programme sent it above 28 in August 2018. Since then, the hryvnia has been slowly appreciating.

Despite Ukraine's encouraging growth potential, the refinancing risk of maturing debt remains rather high, particularly in the current global capital market environment, when risk appetite subsided – this makes the continuing of the IMF programme crucial for Ukraine.

The IMF programme that started in 2015 has ended in the second half of 2018 without completing the reform plans. It was replaced by a 1.3-billion-dollar temporary IMF facility that will last until the beginning of 2020, with an aim to secure a stable financing background for Ukraine for the 2019 elections.

From 2017 the base of the **Hungarian** banking tax is the adjusted balance sheet total at the actual calendar year minus two years (i.e. for the 2018 banking tax calculation the end-2016 adjusted total assets must be used). Effective from 2017 the applicable upper tax rate has been moderated to 0.21%. The total annual amount of the banking tax payable in 2018 was already booked in one sum in the first quarter of 2018. From 2018 the bank tax rate further moderated, by 1 basis point to 0.20%.

In 2018 more than 12,000 applications for the Housing Subsidy Scheme for Families (CSOK) subsidy were registered at OTP Bank with a value of over HUF 40 billion.

In accordance with a legislative change effective from 17 October 2018 the state subsidy for new building society contracts was phased out (the subsidy in the case of already existing contracts won't change). Simultaneously, the Government suggested that the potential savings in the central budget would be re-allocated for extending the Housing Subsidy for Families scheme (CSOK). As a result, on 25 October the Government decided on extending the CSOK, in particular families with two children will be eligible for a preferential housing loan in the amount of up to HUF 10 million (with fix 3% interest rate), whereas the original amount of HUF 10 million preferential loan for families with three children will be increased to HUF 15 million. The new conditions came into force from 1 December 2018.

With respect to mortgage lending, one of the most important and spectacular development was the steady and unambiguous rise in the popularity of fixed rate mortgages. At OTP the proportion of fixed rate housing loans (with an interest rate fixation period of at least 5 years) within non-subsidized housing loan applications reached 97% in the fourth quarter of 2018, up from around 50% in 2017 as a whole. It was also positive that in the last several months the applications for mortgages with a repricing period of 10 years or more gained further ground: in the fourth quarter of 2018 the aggregated volume of applications for loans with fixation period of 10 and 20 years was close to 80% within total fixed rate credits. The above developments were stimulated by the deliberate policies taken by the NBH, through the introduction of the certified consumer-friendly housing loans and the amendments to the payment-to-income ("PTI") rules effective from 1 October 2018. In the fourth quarter of 2018 the share of certified customer-friendly mortgages within new fixed rate market-based housing loan applications exceeded 70%.
As for debt brake rules, the NBH decided to amend the regulation on the PTI ratio, in order to further promote the safer fixed rate mortgages. Effective from 1 October 2018, in the case of taking out a new HUF denominated mortgage loan the debtor's total monthly debt service cannot exceed certain % of their regular net monthly income, as stipulated in the relevant central bank decree.

NOTE 43: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE GROUP'S FINANCIALS (in HUF mn) [continued]

According to the decision by the Monetary Council ("MC") of the NBH on 21 November 2017 the MC introduced an unconditional IRS facility, with 5 and 10 years maturity. Counterparty banks could access the IRS facility on regular tenders from the beginning of January 2018. In line with the fine-tuning of the unconventional policy instruments affecting long-term yields, the on 18 September 2018 MC made a decision to phase out the monetary policy IRS facilities by the end of 2018. The Council set the annual maximum stock of monetary policy IRS ("MIRS") for 2018 at HUF 1,100 billion.

Until November 2018 – in coordination with the auditor – the initial positive net present value ("NPV") gained on MIRS deals was accrued for the whole maturity of MIRS transactions within the net interest income. In December 2018 NBH published guidelines on its website, according to which those swap facilities were unconditional, therefore in NBH's opinion there was no such binding criteria within the conditions that would require the accrual of NPVs.

Taking into consideration the NBH's guidelines, OTP – with the consent of the auditor – decided to book the total initial positive NPVs in one lump sum within its statement of profit or loss, which was HUF 20.7 billion before tax gain (HUF 18.8 billion after tax).

REPORT OF THE SUPERVISORY BOARD ON THE ANNUAL FINANCIAL STATEMENTS FOR 2018 AND ITS PROPOSAL REGARDING THE USE OF AFTER-TAX PROFIT

In 2018, 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 rules of procedure.

The Supervisory Board continued to perform its **controlling function** in 2018, protecting the assets of the company and the interests of the shareholders.

Within this framework, at its meetings held last year 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/deputy 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 audit units involved in the unified internal audit system,
  - 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 2017,
  - on OTP Bank Plc.'s business results for 2017,
  - as part of the auditor's report, on the parent company statement prepared in accordance with International Financial Reporting Standards (IFRS) in respect of the year 2017,
  - as part of the auditor's report, on the 2017 IFRS-based consolidated financial report (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 2017 financial reports received from the auditor,
  - in relation to the material data of the 2017 financial report that is to be published,
  - on the General Meeting's authorisation with regard to the acquisition of treasury shares,
  - on the 2017 activities of the Remuneration Committee,
  - 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 2017 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 2018 (with respect to 2017)
  - in a knowledge of the 2017 factual data, on the comparison, with previous practice, of the methodology used to calculate the performance percentage serving as the basis for final/performance-based remuneration based on the fulfilment of strategic and individual goals,
  - 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 regulation on insider dealing, unlawful disclosure of inside information and market manipulation, and certain related obligations and prohibitions,

- 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 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 to the sphere of duties of internal audit,
- on the back-testing of the fulfillment of corporate strategic action plans,
- 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 contracts for non-prohibited non-audit services concluded with the auditor,
- on the acquisition plans of OTP Bank Plc. and the implementation thereof,
- on the 2019 business, financial and strategic plan of OTP Bank Plc. and the Bank Group, and other topical issues.

➢ *approved*

- the remuneration guidelines of OTP Bank Plc.,
- the system of criteria for the measurement and evaluation of the performance of OTP Bank Plc.'s senior management in 2018, who are subject to the Bank Group Remuneration Policy,
- in respect of the 2017 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 Organisation,
- the settlement of the remuneration withheld within the performance-based remuneration due in respect of 2016,
- the report of the Supervisory Board on the annual financial statements of 2017 and the proposal regarding the utilisation of after-tax profit,
- the evaluation of the Supervisory Board of the performance of the senior officers during the business year and its proposal on granting them discharge from liability,
- the amendment of the system of criteria for the measurement and evaluation of the 2018 performance of executives of Group Member subsidiaries as identified at the consolidated level by the Remuneration Policy,
- the submission to the National Bank of Hungary of the exemption request, given the lack of impact on the risk profile of certain executives identified under the personal scope of the Remuneration Policy,

➢ *accepted*

- the proposal regarding the modification and the submission to the General Meeting of OTP Bank Plc.'s Articles of Association,
- 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 members of OTP Bank Plc.'s Supervisory Board and Audit Committee,
- the proposal on the implementation and annual review of the remuneration policy of OTP Bank Plc. and the Bank Group in 2017,

- 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 proposal for the utilisation of the after-tax profit of the parent company and on dividend payment,
- the contents of the Corporate Governance Report for 2017 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.

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 that OTP Bank Plc. has an audit system in place suitable for comprehensive and efficient operation and, furthermore, given its scope of authority, also ensured the compliant operation of the internal audit units of the credit institutions, financial firms and investment firms that are under the controlling influence of the Bank.

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.

As a part of its <u>professional oversight of the internal audit units</u>, 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. It approved the audit topics designated for group-level implementation which it deemed to be of priority importance in terms of Group-level strategy, legal compliance, the achievement of business policy goals and risk management, and as such, approved audits aimed at the level of regulation and performance of back-office tasks related to retail loan products, IT device management and configuration records, and documentary transactions and guarantees.

Based on the audit plan for 2f018 and other, unscheduled tasks, the Internal Audit Directorate **completed 196 audits** and **commenced 19 audits** during the year. Following the completed audits, it drew up **1,188** 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 Bank Group level.

Prior to the ordinary annual General Meeting of 2019, 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 contents of the Bank's **stand-alone financial statements** and the **consolidated annual financial statements**, and was **briefed by the auditor**.

The Supervisory Board commented on and approved the **Corporate Governance Report** (for 2018) prior to its presentation for approval to the General Meeting.

The Supervisory Board – based on prior agreement with the Board of Directors – **makes a proposal at the 2019 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 2019 Annual General Meeting on whether to grant the senior officers discharge from liability.

Prior to the 2019 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 2018 annual financial statements** and on the proposal for the **use of the after-tax profit,** and it will submit it to the 2019 Annual General Meeting.

Based on the documents made available to it in respect of the 2018 business year, the Supervisory Board has concluded that OTP Bank Plc. prepared its **annual financial statements** in line with the provisions of Act C of 2000 on Accounting and in compliance with the rules on the presentation of financial accounts as set out in the International Financial Reporting Standards (IFRS) as 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 2018 business year prepared in accordance with International Financial Reporting Standards

with a ***balance sheet total of HUF 8,506,188 million,*** *and*

- the consolidated annual financial statements on the 2018 business year prepared in accordance with International Financial Reporting Standards

with a ***balance sheet total of HUF 14,590,288 million,*** *and*

- the non-consolidated **net profit** in accordance with International Financial Reporting Standards

with ***an amount of HUF 173,442 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 2018
AND PROPOSAL FOR THE USE OF
THE AFTER-TAX PROFIT

In 2018 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 rules of procedure 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 2017 financial report of the parent company prepared in accordance with the Accounting Act 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 2017 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 2017 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 2017,
    - in relation to the material data of the 2017 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 2018 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 2017 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 2018 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, based on the reports it has read and evaluated, and in agreement with the auditor, finds that the Bank's Board of Directors may submit for approval to the General Meeting, in respect of the 2018 Business year:

- *the non-consolidated annual financial statement*
  with a balance sheet total of HUF 8,506,188 million,

- *the consolidated annual financial statement*
  with a balance sheet total of HUF 14,590,288 million, *and*

- the non-consolidated **net profit**

  with ***an amount of HUF 173,442 million,***

all prepared in accordance with International Financial Reporting Standards.

The Audit Committee agrees with the proposal of the Board of Directors that **dividend in an amount of HUF 219** per share be paid out of the profit reserves in accordance with the Company's Articles of Association.

RESULTS OF THE INDEPENDENT AUDITORS'S REPORT FOR THE YEAR ENDED 2018

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of OTP Bank Plc.

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of OTP Bank Plc. (the "Bank") for the year 2018 which comprise the separate statement of financial position as at December 31, 2018 – which shows total assets of HUF 8,506,188 million –, and the related separate statement of profit or loss, separate statement of comprehensive income – which shows a net profit for the period of HUF 173,442 million –, separate statement of changes in equity and separate statement of cash-flows for the year then ended and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of the Bank as at December 31, 2018 and of its financial performance and its cash-flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (the "EU IFRS"), and the separate financial statements were prepared in all material respects in accordance with the provisions of the effective Hungarian Act C of 2000 on Accounting (the "Accounting Act") relevant to the entities preparing separate financial statements in accordance with EU IFRS.

Basis for Opinion

We conducted our audit in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits. Our responsibilities under these standards are further described in the *"The Auditor's Responsibilities for the Audit of the Separate Financial Statements"* section of our report.

We are independent of the Bank in compliance with the relevant effective Hungarian regulations and the "Rules of conduct (ethical rules) of the auditor profession and the disciplinary process" of the Chamber of Hungarian Auditors and, in respect of matters not regulated therein, the "Code of Ethics for Professional Accountants" (the IESBA Code) issued by the International Ethics Standards Board for Accountants, and we have fulfilled our other ethical responsibilities in accordance with the same ethical requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the matter</th></tr>
<tr><td colspan="2">Calculation of expected credit losses on corporate and retail loans</td></tr>
<tr><td>(See notes 8., 24., and 28.1. to the separate financial statements for the details)

As described in the notes to the financial statements, the impairment losses have been determined in accordance with IFRS 9 Financial Instruments, which is a new accounting standard which requires significant professional judgement to determine the expected credit losses ("ECLs"). At the year end, the Company reported total gross loans of HUF 2,680,533 million and provisions for impairment on loan losses of HUF 66,253 million. The determination of the ECL of loans is considered a key audit matter, as it requires application of professional judgement and use of subjective assumptions by management in case of both the application of portfolio based collective impairment models, and determination of individual specific loan loss provision. The most significant assumptions applied in determining the impairment are the following:

- The interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Bank's expected credit loss model;

- IFRS 9 credit risk staging methodology and application, including the identification of exposures with a significant deterioration in credit quality;

- model used for impairment calculations reflecting the characteristics of the portfolio, such as valuation of collateral, probability of default and recovery rates, macroeconomic factors;

- the application of assumptions, where there was limited or incomplete data; and

- estimation of future cash-flows expected to be realized, including application of scenarios and scenario weights.</td><td>Our response as auditors included:

- assessment and testing of the modelling techniques and methodology applied by the Bank in order to estimate ECLs, and evaluation of its compliance with the requirements of IFRS 9;

- evaluating the design and testing of the operating effectiveness of internal controls over timely identification of exposures with significant increase in credit risk, monitoring of credit impaired exposures, and calculating, and recording of loan loss provision;

- assessing the collective model methodology and testing the calculations in terms of risk parameters (probability of default – PD, loss given default – LGD, expected credit loss – ECL, and macroeconomic factors) applied by the collective models including involving our specialists;

- involving our actuarial and valuation experts to assist us in re-performing the calculation of the loss allowance and independently assessing the appropriateness of the assumptions used, the impairment methodologies and policies applied;

- assessing on a sample basis, whether the staging and impairment triggers are captured appropriately and whether the estimation of the impairment is reasonable;

- sample based testing of individual provision, including the assessment of valuation of collateral and estimation of expected future cash-flows, application of different scenarios and scenario weights and forming an independent view of the adequacy of the loss allowance; and

- assessment of the accuracy of the disclosures in the financial statements.</td></tr>
</table>

2/6

Key audit matter	How our audit addressed the matter
Valuation of investments	
(See note 9. to the separate financial statements for the details) The Bank performed several acquisitions in prior years, and as a result of these acquisitions a net amount of HUF 1,177,573 million of investments is presented in the separate statement of financial position. As required by the applicable accounting standards, management conducts regular impairment tests to assess whether there is a need to record impairment with respect to the investments. These impairment tests take into account several material assumptions and the professional judgement of management, including in respect of discount rates applied, growth rates, cost levels and future risk costs. Accordingly, the valuation of investments is considered to be a key audit matter.	Our response as auditors included: - the assessment of the appropriateness of the assumptions applied by management; - testing the inputs to and reviewing the valuation models applied by management together with the applied assumptions with the involvement of our valuation experts; - evaluating whether the management plans and the resulting cash-flow forecasts are in accordance with historical results, including the performance of sensitivity analysis on the key parameters of the models when needed; and - considering the appropriate application of the relevant accounting standards, the related journal entries and disclosures with regards to recording impairment and its release.

Other Information

Other information comprises the information included in the section called "Management's Analysis" of the annual report and the business report of the Bank for 2018, which we obtained prior to the date of this auditor's report, and the sections called "Message to the shareholders", "Corporate Governance" and "Macroeconomic and financial environment in 2018" of the annual report, which is expected to be made available to us after that date, but does not include the separate financial statements and our independent auditor's report thereon. Management is responsible for the other information and for the preparation of the business report in accordance with the relevant provisions of the Accounting Act and other regulations. Our opinion on the separate financial statements provided in the section of our independent auditor's report entitled "Opinion" does not apply to the other information.

Our responsibility in connection with our audit of the separate financial statements is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Furthermore, in accordance with the Accounting Act, our responsibilities regarding the business report also include reviewing the business report to assess whether the business report was prepared in accordance with the relevant provisions of the Accounting Act and other regulations, if any, including the assessment whether the business report complies with the requirements of Section 95/B (2) e) and f) of the Accounting Act, and to express an opinion on the above and on whether the business report is consistent with the separate financial statements. Furthermore, in accordance with the Accounting Act we shall make a statement whether the information referred to in Section 95/B. (2) a)-d), g) and h) has been provided in the business report and whether the business report contains the non-financial statement provided for in Section 95/C.

In our opinion, the business report of the Bank for 2018 corresponds to the separate financial statements of the Bank for 2018 and the relevant provisions of the Accounting Act in all material respects. The information referred to in Section 95/B. (2) a)-d), g) and h) of the Accounting Act has been provided and the business report contains the non-financial statement provided for in Section 95/C.

As the Bank is not subject to additional requirements under any other regulation in connection with the business report, we have not formulated an opinion on this matter.

In addition to the above, based on the information obtained about the Bank and its environment, we must report on whether we became aware of any material misstatements in the other information and, if so, on the nature of such material misstatements. We have nothing to report in this regard.

When we read the sections of the annual report that were not yet made available to us until the date of this report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

The Auditor's Responsibilities for the Audit of the Separate Financial Statements

Our objectives during the audit are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue, on the basis of the above, an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits will always detect a material misstatement when it exists. Misstatements can arise from fraud or error, and they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits, we exercise professional judgement and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify the opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the notes to the separate financial statements, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in the Bank's internal control that we identify during the audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In compliance with Article 10 (2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of the Auditor and the Period of Engagement
We were appointed as the auditors of the Bank by the General Meeting of Shareholders on April 13, 2018 and our uninterrupted engagement has lasted for 26 years.

Consistence with the Additional Report to the Audit Committee
We confirm that our audit opinion on the separate financial statements expressed herein is consistent with the additional report to the Audit Committee of the Bank, which we issued on March 8, 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services
We declare that no prohibited non-audit services referred to in Article 5 (1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Bank. In addition, there are no other non-audit services which were provided by us to the Bank and its controlled undertakings and which have not been disclosed in the business report.

The engagement partner on the audit resulting in this independent auditor's report is the statutory registered auditor signing this report.

Budapest, March 18, 2019

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Company Registration Number: 01-09-071057

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of OTP Bank Plc.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of OTP Bank Plc. (the "Bank") and its subsidiaries (the "Group") for the year 2018 which comprise the consolidated statement of financial position as at December 31, 2018 – which shows total assets of HUF 14,590,288 million –, the related consolidated statement of profit or loss and the consolidated statement of comprehensive income – which shows a net profit for the period of HUF 318,322 million –, consolidated statement of changes in equity, and the consolidated statement of cash-flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2018 and of its consolidated financial performance and its consolidated cash-flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (the "EU IFRS"), and the consolidated financial statements were prepared in all material respects in accordance with the provisions of the effective Hungarian Act C of 2000 on Accounting (the "Accounting Act") relevant to the entities preparing consolidated financial statements in accordance with EU IFRS.

Basis for Opinion

We conducted our audit in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits. Our responsibilities under these standards are further described in the *"The Auditor's Responsibilities for the Audit of the Consolidated Financial Statements"* section of our report.

We are independent of the Group in compliance with the relevant effective Hungarian regulations and the "Rules of conduct (ethical rules) of the auditor profession and the disciplinary process" of the Chamber of Hungarian Auditors and, in respect of matters not regulated therein, the "Code of Ethics for Professional Accountants" (the IESBA Code) issued by the International Ethics Standards Board for Accountants, and we have fulfilled our other ethical responsibilities in accordance with the same ethical requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the matter
Calculation of expected credit losses on corporate and retail loans	
(See notes 8., 24., and 28.1. to the consolidated financial statements for the details) As described in the notes to the consolidated financial statements, the impairment losses have been determined in accordance with IFRS 9 *Financial Instruments*, which is a new accounting standard which requires significant professional judgement to determine the expected credit losses ("ECLs"). At the year end, the Group reported total gross loans of HUF 8,751,957 million and provisions for impairment on loan losses of HUF 685,364 million. The determination of the ECL of loans is considered a key audit matter, as it requires application of professional judgement and use of subjective assumptions by management in case of both the application of portfolio based collective impairment models, and determination of individual specific loan loss provision. The most significant assumptions applied in determining the impairment are the following: - The interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Bank's expected credit loss model; - IFRS 9 credit risk staging methodology and application, including the identification of exposures with a significant deterioration in credit quality; - model used for impairment calculations reflecting the characteristics of the portfolio, such as valuation of collateral, probability of default and recovery rates, macroeconomic factors; - the application of assumptions, where there was limited or incomplete data; and - estimation of future cash-flows expected to be realized, including application of scenarios and scenario weights.	Our response as auditors included: - assessment and testing of the modelling techniques and methodology applied by the Group in order to estimate ECLs, and evaluation of its compliance with the requirements of IFRS 9; - evaluating the design and testing of the operating effectiveness of internal controls over timely identification of exposures with significant increase in credit risk, monitoring of credit impaired exposures, and calculating, and recording of loan loss provision; - assessing the collective model methodology and testing the calculations in terms of risk parameters (probability of default – PD, loss given default – LGD, expected credit loss – ECL, and macroeconomic factors) applied by the collective models including involving our specialists; - involving our actuarial and valuation experts to assist us in re-performing the calculation of the loss allowance and independently assessing the appropriateness of the assumptions used, the impairment methodologies and policies applied; - assessing on a sample basis, whether the staging and impairment triggers are captured appropriately and whether the estimation of the impairment is reasonable; - sample based testing of individual provision, including the assessment of valuation of collateral and estimation of expected future cash-flows, application of different scenarios and scenario weights and forming an independent view of the adequacy of the loss allowance; and - assessment of the accuracy of the disclosures in the financial statements.

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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 2018" of the annual report, which is expected to be made available to us after that date, but does not include the consolidated financial statements and our independent auditor's report thereon. Management is responsible for the other information and for the preparation of the consolidated business report in accordance with the relevant provisions of the Accounting Act and other regulations. Our opinion on the consolidated financial statements provided in the section of our independent auditor's report entitled "Opinion" does not apply to the other information.

Our responsibility in connection with our audit of the consolidated financial statements is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Furthermore, in accordance with the Accounting Act, our responsibilities regarding the consolidated business report also include reviewing the consolidated business report to assess whether the consolidated business report was prepared in accordance with the relevant provisions of the Accounting Act and other regulations, if any, including the assessment whether the consolidated business report complies with the requirements of Section 95/B (2) e) and f) of the Accounting Act, and to express an opinion on the above and on whether the consolidated business report is consistent with the consolidated financial statements. Furthermore, in accordance with the Accounting Act we shall make a statement whether the information referred to in Section 95/B. (2) a)-d), g) and h) has been provided in the consolidated business report, and whether the consolidated business report contains the non-financial statement provided for in Section 134 (5).

In our opinion, the consolidated business report of the Group for 2018 corresponds to the consolidated financial statements of the Group for 2018 and the relevant provisions of the Accounting Act in all material respects. The information referred to in Section 95/B. (2) a)-d), g) and h) of the Accounting Act has been provided and the consolidated business report contains the non-financial statement provided for in Section 134 (5).

As the Group is not subject to additional requirements under any other regulation in connection with the consolidated business report, we have not formulated an opinion on this matter.

In addition to the above, based on the information obtained about the Group and its environment, we must report on whether we became aware of any material misstatements in the other information and, if so, on the nature of such material misstatements. We have nothing to report in this regard.

When we read the sections of the annual report which had not yet been made available to us at the date of this report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

The Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives during the audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue, on the basis of the above, an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits will always detect a material misstatement when it exists. Misstatements can arise from fraud or error, and they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits, we exercise professional judgement and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify the opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the notes to the consolidated financial statements , and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in the Group's internal control that we identify during the audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In compliance with Article 10 (2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of the Auditor and the Period of Engagement
We were appointed as the auditors of OTP Bank Plc. by the General Meeting of Shareholders on April 13, 2018 and our uninterrupted engagement has lasted for 26 years.

Consistence with the Additional Report to the Audit Committee
We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of OTP Bank Plc., which we issued on March 8, 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services
We declare that no prohibited non-audit services referred to in Article 5 (1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Group. In addition, there are no other non-audit services which were provided by us to the OTP Bank Plc. and its controlled undertakings which have not been disclosed in the consolidated business report.

The engagement partner on the audit resulting in this independent auditor's report is the statutory registered auditor signing this report.

Budapest, March 18, 2019

....	....
Andrew Weekes	dr. Hruby Attila
Deloitte Auditing and Consulting Ltd.	Statutory registered auditor
1068 Budapest, Dózsa György út 84/C.	Registration number: 007118
Registration number: 000083	

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RESOLUTION PROPOSAL No. 1/2019

The Annual General Meeting accepts the Board of Directors' report on the Company's financial activity for the year ended 2018, 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 2018, 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 2018 with total assets of HUF 8,506,188 million and with net profit for the period of HUF 173,442 million. The net profit for the period is allocated as follows: the general reserve must be increased by HUF 17,344 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 3 June 2019 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 14,590,288 million, and with net profit of HUF 318,322 million. The profit for shareholders is HUF 318,233 million.

APPROVAL OF THE
CORPORATE GOVERNANCE REPORT FOR Y2018

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. The liability of the Board of Directors extends to the operation of the entire Company, as part of which the Board's main tasks include the approval of the Company's strategy, annual report, major organisational restructurings and policies, as well as making other significant company law-related decisions. 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.
In view of the fact that the Board of Directors also has an important role to play 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** (3 executive members, 7 non-executive members)**.** 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 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 February 2018, he is Vice President of the FIFA Council.
As of 31 December 2018 he held 740,667 ordinary OTP shares (while the total number of OTP shares held by him directly and indirectly was 3,425,995).

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 2018 she held 27,263 ordinary OTP shares.

<u>László Wolf</u>
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. Between 30 June 2014 and 9 September 2018, he was 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 2018 she held 605,029 ordinary OTP shares.

<u>Non-executive members:</u>

<u>Mihály Baumstark</u>
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 2011 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 2018 she held 54,000 ordinary OTP shares.

<u>Dr. Tibor Bíró</u>
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 2018 she held 24,956 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 2018 she held 9,639 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. He was Chairman of the Board of Directors at OTP Factoring Ltd. between 2006 and 2017.
He has been a member of OTP Bank's Board of Directors since 27 April 2012.
As of 31 December 2018 she held 154,401 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 was Chairman of the Supervisory Board of Splitska banka from 2 May 2017 until its successful integration (on 30 November 2018).
He has been a member of OTP Bank's Board of Directors since 2002. He was Deputy Chairman of OTP Bank's Board of Directors from 9 June 2009 to 14 April 2016.
As of 31 December 2018 she held 86,901 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.
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. He has been Chairman of the Board of Directors of Merkantil Real Estate Leasing Ltd. since 4 April 2018.
As of 31 December 2018 he held 208,792 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 2018 she held 151,314 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 2018, and of the attendance at these meetings:

Board of Directors meetings 2018

Date	***Present***	***Absent***
28 Feb.	*9*	*1*
13 March	*10*	*-*
5 June	*10*	
17 Sept.	*10*	*-*
19 Nov.	*9*	*1*
12 Dec.	*10*	

Note:
In 2018 the Board of Directors met on a total of 6 occasions. In addition, resolutions were passed on 102 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 liability of the Supervisory Board extends to the supervision of the lawfulness of the Company's operation, its business practices and management, including the control of the Company's internal audit organisation. 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 organisation.

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 2018 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 was a member of the Board of Directors of INA Industrija Nafte d.d. from 2014 to 2018.
As of 31 December 2018 he held no ordinary OTP shares.

Olivier Péqueux
Groupama

He graduated from the Institute of Actuaries of France and Université Paris-Dauphine.
He started 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 reform of the pension laws and the establishment of a pension fund for French civil servants. He then 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 deputy CEO of Groupama China, where he was in charge of finance, actuary matters and investments in the joint venture between Groupama and AVIC.
From 2015 to 2017, he was the CEO of Groupama AVIC. He has been the Chairman of Groupama-Avic Property Insurance Company Ltd. since 2017.
He has been a member of the Supervisory Board and Audit Committee of OTP Bank since 2018.
As of 31 December 2018 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 2018 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 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 2018 she held 160,118 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 2018 she held 100 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 2018, and of the attendance at these meetings:

Supervisory Board Meetings
2018

Date	*Present*	*Absent*
2 March	*4*	*2*
13 March	*4*	*2*
18 May	*5*	*1*
5 June	*5*	*1*
21 Sept.	*4*	*2*
23 Nov.	*6*	
12 Dec.	*6*	*-*

Note:
In 2018 the Supervisory Board met on a total of 7 occasions. In addition, resolutions were passed on 48 occasions by written vote.
Dominique Uzel resigned from his post on the Supervisory Board with effect from 13 April 2018.
On 13 April 2018, the Bank’s General Meeting elected Mr. Olivier Péqueux as a new member of the 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 CV, see the section entitled 'Management bodies')

Tibor Tolnay

(For his CV, see the section entitled 'Management bodies')

Olivier Péqueux
(For his CV, see the section entitled 'Management bodies')

Dr. Márton Gellért Vági

(For his CV, see the section entitled 'Management bodies')

<u>Operation of OTP Bank Plc.'s Audit Committee</u>

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 2018, and of the attendance at these meetings:

Audit Committee meetings
2018

Date	*Present*	*Absent*
18 March	*3*	*1*
12 Dec.	*4*	*-*

Note:
In 2018 the Audit Committee met on a total of 2 occasions. In addition, resolutions were passed on 24 occasions by written vote.
Dominique Uzel resigned from his post on the Audit Committee effective as of 13 April 2018.
On 13 April 2018, the Bank's General Meeting elected Mr. Olivier Péqueux as a new member of the Audit Committee.

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 Committee 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:

<u>Remuneration Committee</u>
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)
- Group Impairment Committee

Permanent committees are the Bank's bodies in charge of preparing and making decisions as well as conducting consultations. The task of permanent committees is to prepare and make decisions needed for the performance of the Bank's business activities, for minimising the Bank's risks and for ensuring its operation. Decisions to establish permanent committees are made by the Bank's Board of Directors. The members of the committees are persons in charge of the professional areas concerned, who have exceptional expertise and all-round competence in the given matter. 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, the Work-Out Committee and the Group Impairment Committee operate on the principle of simple majority, while in the case of the Management Committee, the Product Development, Sales and Pricing Committee and the IT and Operations Committee, decisions are made by a simple majority of votes 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 CV, see the section entitled 'Management bodies')

Dr. Zsolt Barna
General Deputy CEO
Group Governance and Operations Division

Dr. Zsolt Barna started his professional career at the State Financial and Capital Market Supervisory Commission, and rising through the ranks he became managing director of the Financial and Capital Market Supervisory Directorate in 2006. In this position, he was responsible for the supervision of banks and banking groups. Between 2006 and 2010, he was a member and permanent invitee to the CESR's, CEBS's management bodies and professional committees.
He has been working for OTP Group since 2010, during which time he was appointed to Chairman of the Board of Directors of CKB Bank in Montenegro, where he was in charge or the bank's reorganisation. Following several executive positions within OTP Group, between 8 June 2016 and 31 August 2018 he held the position of the Chairman and CEO of OTP Real Estate Investment Fund Management Ltd. and, in addition, from September 2016 to 31 August 2018 he acted as Chairman of the Board of Directors of OTP Fund Management Ltd. He has been Chairman of the Board of Directors of OTP Real Estate Investment Fund Management Ltd. since 8 June 2016. In 2017-2018, he supervised the integration of OTP

Bank's Croatian subsidiaries. Starting from 10 September 2018, he has been Chairman of the Supervisory Board of OTP Real Estate Ltd.
Since 1 September 2018, he has been the General Deputy CEO in charge of OTP Bank's Group Governance and Operations Division.
As of 31 December 2018 he held no ordinary OTP shares.

László Bencsik
Deputy CEO
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 2018 she held 39,105 ordinary OTP shares.

Tibor András Johancsik
Deputy CEO
IT and 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 Operations Division.
He has been Chairman of the Supervisory Board of Monicomp Zrt. since 1 April 2016.
As of 31 December 2018 he held 8,558 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 2018 she held 20,131 ordinary OTP shares.

Antal György Kovács
Member of the Board of Directors, Deputy CEO
Retail Division

(For his CV, see the section entitled 'Management bodies')

László Wolf
Member of the Board of Directors, Deputy CEO
Commercial Banking Division

(For his CV, 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 independent internal audit organisation has unrestricted access to the information, documents and data needed to carry out the audits, and receives continuous information on any and all changes in the structure, risks and priorities of the group.

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.

Once a year, the internal audit organisation draws up, for the Supervisory Board, objective and independent reports in respect of the operation of risk management, internal control mechanisms and corporate governance functions and, in line with the provisions of the Credit Institutions Act, reports, once a year, to the Supervisory Board and the Board of Directors on the regularity of internal audit tasks, professional requirements and the conduct of audits, and on the review of compliance with IT and other technical conditions needed for the audits.

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. (company reg. no. 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), 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 2018, 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).

Voting at the General Meeting is performed using a computer, with a voting device. The shareholder or the shareholder's proxy, provided that he or she is attending lawfully in accordance with the provisions of the Articles of Association, may collect the voting device after certifying his or her identity and signing the attendance register at the venue of the General Meeting. If due to technical reasons voting is not possible with the voting device, the voting will take place with the help of voting books. Any given shareholder (including a shareholder represented by a shareholder's proxy) is only entitled to use a single voting device (book of voting slips)."

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. Remuneration Statement

In compliance with the relevant European Union directive (CRD IV) and the provisions of the Credit Institutions Act, the Bank's General Meeting concluding the year 2017, 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).

Employees employed at the Bank or at OTP Mortgage Bank Ltd, OTP Building Society Ltd, Merkantil Bank Ltd, OTP Fund Management Ltd, OTP Factoring Ltd, OTP Real Estate Investment Fund Management Ltd, OTP Real Estate Ltd and OTP Pénzügyi Pont Ltd, who are subject to the consolidated-level personal scope of the Bank Group Remuneration Policy and who receive performance-based remuneration, are entitled, on a voluntary basis and 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.

Within the context of the Bank Group Remuneration Policy, the summarised information pertaining to the remuneration of employees in positions that have a material impact on the risk profile – including the remuneration of management – is contained in the following tables, in a breakdown as set out in the sector-specific legal regulations applicable to the Bank.

Aggregated quantitative data on remuneration at the Bank, by type of activity[1)]:

Remuneration for 2018					
Investment banking	Retail banking	Asset management	Corporate functions	Independent control functions	All other
(million HUF)					
408	1,601		2,619	596	331

Notes:

1) The types of activity were determined in accordance with Annex 13 of MNB Decree No. 28/2017. (XI.22.):
   a. Investment banking: includes corporate finance advisory services, equity and capital market services, trading and sales;
   b. Retail banking: includes deposit collection and all loan provision activity (for individuals and businesses);
   c. Asset management: includes portfolio management, Undertakings for Collective Investment in Transferable Securities (UCITS) and other forms of asset management;
   d. Corporate support functions: all internal support functions (e.g. HR, IT), whether at consolidated level, i.e. with responsibility for the entire institution, or at the stand-alone level, i.e. at the individual subsidiaries;
   e. Independent control functions: staff working in independent risk management, compliance and internal audit functions as described in the EBA guidelines on internal governance;
   f. Other activity: employees who cannot be classified as working in any of the specified business activities.

Aggregated quantitative data on remuneration at the Bank, by type of remuneration:

Persons receiving remuneration [1)]	Remuneration for 2018			Amount of unpaid, deferred remuneration [4)]		The amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments[5)]
	Fixed remuneration [2)]	Performance based remuneration [3)]		Entitlement obtained	Entitlement not obtained	
		Cash based	Share based			
(persons)	(million HUF)					
48	2,827	1,364	1,364	261	3,055	1,192

Notes:

1) Employees at the Bank under the Bank Group Remuneration Policy as of 2018, whose professional activities have a material impact on the risk profile.
2) Contains the accrued amount of the share award that constitutes the fixed remuneration which will be settled after the General Meeting that closes the year 2018.
3) The calculated amount of performance-based remuneration for 2018, the settlement of which may take place based on performance evaluations after the General Meeting for 2019.
4) The first, second, third and fourth deferred part and the short-term withheld portion (vested) of the share-based part of performance-based remuneration for 2017, the second and third deferred part of performance-based remuneration for 2016, and the third deferred part of performance-based remuneration for 2015.
5) The third deferred part of performance-based remuneration for 2014, the second deferred part of performance-based remuneration for 2015, the first deferred part of performance-based remuneration for 2016 and the short-term withheld portion of the share-based part of performance-based remuneration for 2016, settled in 2018.

The amount of unpaid, deferred remuneration for employees in positions in years prior to 2018 which have a material impact on the risk profile but which positions are no longer identified by the Bank in 2018 or for employees that have already retired, and the amount of deferred remuneration awarded during the business year, was as follows:

Persons receiving remuneration	Amount of unpaid, deferred remuneration		The amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments
	Entitlement obtained	Entitlement not obtained	
(persons)	(million HUF)		
22	5	357	426

During the business year, within the scope of the Remuneration Policy, no employees at the Bank received severance payment exceeding the statutory level, and no sign-on bonuses were given.

For 2018, one person receives remuneration between EUR 3.0-3.5 million, and two persons between EUR 1.0-1.5 million (calculated at the MNB exchange rate of 28 December 2018).

Remuneration settled in 2018 for the members of the OTP Bank Plc. Board of Directors and the Supervisory Board amounted to HUF 1,232 million, which includes the amount of the share allowance constituting the fixed remuneration of the members of the Board of Directors and which is settled after the General Meeting closing the 2017 business year.

Name	Position	Amount of compensation		Total amount of cash compensation in 2018 (HUF)
		HUF/month	OTP shares number/month[1]	
Board of Directors				
Dr. Sándor Csányi	Chairman	810,000	1,000	9,720,000
Antal György Kovács	Member	695,000	800	8,340,000
László Wolf	Member	695,000	800	8,340,000
Dr. Antal Pongrácz	Member (non-executive)	695,000	800	8,340,000
Dr. István Gresa	Member (non-executive)	695,000	800	8,340,000
Mihály Baumstark	Member (non-executive)	695,000	800	8,340,000
Tamás Erdei	Member (non-executive)	695,000	800	8,340,000
Dr. Tibor Bíró	Member (non-executive)	695,000	800	8,340,000
Dr. László Utassy	Member (non-executive)	695,000	800	8,340,000
Dr. József Vörös	Member (non-executive)	695,000	800	8,340,000
Supervisory Board				
Tibor Tolnay	Chairman	2,400,000	---	28,800,000
Dr. Gábor Horváth	Deputy Chairman	1,900,000	---	22,800,000
Dominique Uzel	Member	1,700,000	---	---[2]
Olivier Péqueux	Member	1,700,000	---	---[3]
Dr. Gellért Márton Vági	Member	1,700,000	---	20,400,000
Ágnes Rudas	Member (employee)	1,700,000	---	20,400,000
András Michnai	Member (employee)	1,700,000	---	20,400,000

Notes:

1) The share allowance is settled once a year, within 30 days after the General Meeting that closes the given business year, and in respect of 50% of the shares the beneficiaries are subject to an extended holding obligation (prohibition on sale) up to the end of their mandates.
2) Until 13 April 2018, the honorarium was transferred to Groupama S.A.
3) From 13 April 2018, the honorarium was transferred to Groupama S.A.

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 2018 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 7 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.

1.1.1. The Company has an organisational unit that deals with investor relations or a designated person that performs these tasks.
Yes

1.1.2. The Company's Articles of Association are accessible on the Company's website.
Yes

1.1.4. If the Company's Articles of Association allow shareholders to exercise their rights in their absence, the Company has published the methods and conditions for doing so, including all necessary documents.
Yes

1.2.1. The Company has published on its website a summary document with the rules applicable to the conduct of its General Meetings and to the exercise of voting rights by shareholders.
Yes

1.2.2. The Company has published the precise date when the circle of those eligible to participate in a given company event is determined (effective date), and has also published the last date when the shares granting eligibility for participating in the given company event are traded.
Yes

1.2.3. The Company held its General Meetings by ensuring that as many shareholders can attend as possible.
Yes

1.2.6. The Company has not restricted the rights of shareholders to designate a different representative for each of their securities accounts at any General Meeting.
Yes

1.2.7. For proposals for the agenda items, in addition to the Board of Directors' draft resolution, the Supervisory Board's opinion was also disclosed to shareholders.
Yes

1.3.3. The Company has not restricted the rights of shareholders attending a General Meeting to request information, add comments and submit proposals, and has not set any preconditions for these, unless measures were taken in the interest of conducting the General Meeting in accordance with the rules and with its intended purpose.
Yes

1.3.4. By answering the questions raised at the General Meeting, the Company has ensured compliance with the information provision and disclosure principles set out in the legal and stock-exchange requirements.
Yes

1.3.5. The Company published on its website, within three working days after the General Meeting, its answers to questions that the representatives of the Company's boards or any auditor present were unable to satisfactorily answer at the time, or information as to why it refrained from offering answers.
Yes

1.3.7. The Chairman of the General Meeting ordered a recess or suggested that the General Meeting be postponed when a motion or proposal relating to a particular issue on the agenda was submitted which the shareholders did not have a chance to become familiar with before the General Meeting.
Yes

1.3.8.1. The chairperson of the General Meeting did not use a combined voting procedure for a decision related to electing and recalling senior officers and Supervisory Board members.
Yes

1.3.8.2. For senior officers or Supervisory Board members, whose nominations were supported by shareholders, the Company disclosed the identity of the supporting shareholder(s).
Yes

1.3.9. Prior to discussing agenda items concerning the amendment of the Articles of Association, the General Meeting passed a separate resolution to determine whether to decide on each amendment of the Articles of Association by individual votes, joint votes, or votes combined in a specific manner.
Yes

1.3.10. The Company published the minutes of the General Meeting containing the resolutions, the description of the draft resolutions and any important questions and answers related to the draft resolutions within 30 days following the General Meeting.
Yes

1.5.1.1. The Board of Directors/Governing Board or a committee consisting of Board of Directors/Governing Board members established guidelines and rules concerning the performance review and remuneration of the Board of Directors/Governing Board, the Supervisory Board and the management.
Yes

1.5.1.2. The tasks and the level of responsibility of each member, the rate of achievement of the Company's objectives and its business/financial position were taken into consideration when establishing performance-based remuneration for the members of the management.
Yes

1.5.1.3. The remuneration guidelines established by the Board of Directors/Governing Board or a committee consisting of Board of Directors/Governing Board members were assessed by the Supervisory Board.
Yes

1.5.1.4. The guidelines (and any major changes thereof) for the remuneration of Board of Directors/Governing Board and Supervisory Board members were approved by the General Meeting in a separate agenda item.
Yes

1.5.2.1. The supervision of the performance of the management and the remuneration of the management falls within the competence of the Board of Directors.
Yes

1.5.2.2. 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.
Yes

1.5.3.1. The General Meeting approved the principles of share-based remuneration schemes.
Yes

1.5.3.2. Prior to the decision by the General Meeting concerning share-based remuneration schemes the shareholders received detailed information (at least as described in point 1.5.3)
Yes

1.5.4. The Company has a remuneration scheme in place which does not incentivise the staff to focus only on short-term maximisation of the share price.
Yes

1.5.5. Supervisory Board members receive a fixed-amount remuneration which does not include any elements linked to share price.
Yes

1.5.6. The Company has prepared a report ('Remuneration Statement') for the owners about the remuneration principles relating to and containing the actual remuneration of Board of Directors/Governing Board, Supervisory Board and management members (with the content and the level of detail set out in industry regulations that are binding for the Company), which was presented to the General Meeting. The Remuneration Statement presented the remuneration of Board of Directors/Governing Board and Supervisory Board members, as well as the guidelines used to assess their activities and establish their remuneration. This information included the disclosure of the remuneration for the Board of Directors/Governing Board and the Supervisory Board, the details of all fixed and variable elements, any other remunerations, as well as a presentation of the guidelines for the remuneration scheme and any major changes to those compared to the previous financial year.
Yes

1.6.1.1. The Company's disclosure guidelines include electronic and internet disclosure procedures.
Yes

1.6.1.2. 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

1.6.2.1. The Company has internal regulations in place with respect to disclosure (publication), which covers the treatment of the information listed in Section 1.6.2 of the Recommendations.
Yes

1.6.2.2. The internal regulations of the Company cover the classification of events that are material in terms of disclosure.
Yes

1.6.2.3. The Board of Directors has assessed the effectiveness of disclosure processes.
Yes

1.6.2.4. The Company has published the findings of its assessment of the disclosure processes.
Yes

1.6.3. The Company has published its annual corporate event calendar.
Yes

1.6.4. The Company has published its strategy, its business ethics policy and its guidelines related to other stakeholders.
Yes

1.6.5. The Company has published information on the careers of Board of Directors /Governing Board, Supervisory Board and management members in its annual report or on the company website.
Yes

1.6.6. The Company has published all relevant information about the work of the Board of Directors/Governing Board, the Supervisory Board and the management, the assessment of such work and any changes thereto in the current year.
Yes

1.6.7.1. The Company has published its remuneration guidelines in line with the recommendations set out in Section 1.5.
Yes

1.6.7.2. The Company has published its Remuneration Statement in line with the recommendations set out in Section 1.5.
Yes

1.6.8. The Company has published its risk management guidelines and information about its system of internal controls, the main risks and the principles applied in their management.
Yes

1.6.9.1. The Company has published its guidelines relating to the trading of its shares by insiders (insider dealing).
Yes

1.6.9.2. The Company has disclosed the share of the Board of Directors/Governing Board, Supervisory Board and management members in the securities issued by the Company, as well as the extent of their interest under the share-based incentive system in the annual report or in some other manner.
Yes

1.6.10. The Company has disclosed the relationship of Board of Directors/Governing Board, Supervisory Board and management members with third parties which could affect the operation of the Company.
Yes

2.1.1. The Company's Articles of Association contain clear provisions regarding the responsibilities and competences of the General Meeting and the Board of Directors/Governing Board.
Yes

2.2.1. The Board of Directors/Governing Board has rules of procedure in place defining the tasks related to the preparation and conduct of meetings, and to the adopted resolutions, as well as other issues related to the operation of the Board of Directors/Governing Board.
Yes

2.2.2. The Company has published the procedure for nominating Board of Directors/Governing Board members and the principles for determining their remuneration.
Yes

2.3.1. In its rules of procedure and its work plan, the Supervisory Board provides a detailed description of its operation and duties, as well as the administrative procedures and processes followed by it.
Yes

2.4.1.1. The Board of Directors/Governing Board and the Supervisory Board held meetings periodically at predefined intervals.
Yes

2.4.1.2. The rules of procedure of the Board of Directors/Governing Board and the Supervisory Board provides rules for the conduct of meetings that cannot be planned in advance, and for decision-making using electronic means of communication.
Yes

2.4.2.1. The board members had access to the proposals of the given meeting at least five working days before the given meeting.
Yes

2.4.2.2. The Company ensured the appropriate conduct of the meetings, the drawing up of minutes on the meetings, and the management of the documentation and the resolutions of the Board of Directors/Governing Board and the Supervisory Board.
Yes

2.4.3. The rules of procedure stipulate the regular and occasional participation in the board meetings of non-board members.
Yes

2.5.1. The members of the Board of Directors/Governing Board and the Supervisory Board were nominated and elected through a transparent process, and the information on the candidates was made public in due time before the General Meeting.
Yes

2.5.2. The composition and size of the boards comply with the principles set out in Section 2.5.2 of the Recommendations.
Yes

2.5.3. The Company ensured that the newly elected board members became familiar with the structure and operation of the Company and their tasks to be performed as members of the respective boards.
Yes

2.6.1. The Governing Board/Supervisory Board requested (in the context of preparing the annual corporate governance report) those of its members that are considered independent to confirm their independence at regular intervals.
Yes

2.6.2. The Company provided information about the tools which ensure that the Board of Directors/Governing Board assesses the management's activities objectively.
Yes

2.6.3. 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

2.6.4. The Supervisory Board of the Company has no members who have held any position in the Board of Directors or in the management of the Company in the preceding five years, not including cases when they were involved to ensure employee participation.
Yes

2.7.1. The members of the Board of Directors/Governing Board informed the Board of Directors/Governing Board (the Supervisory Board/Audit Committee) if they (or individuals they have business relations with, or their relatives) have an interest in any business transactions of the Company (or any subsidiaries thereof) that prejudices their independence.
Yes

2.7.2. Transactions and assignments between members of boards/members of the management (or individuals closely associated with them) and the Company (or its subsidiaries) were carried out and approved in accordance with the Company's general business practices, but applying more stringent transparency rules as compared with such general business practices.
Yes

2.7.3. Board members informed the Supervisory Board/Audit Committee (Nominating Committee) if they received a request to sit on a board or take up a management position at a company not belonging to the Company Group.
Yes

2.7.4. 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.
Yes

2.8.1. The Company has established an independent internal audit function that reports directly to the Audit Committee/Supervisory Board.
Yes

2.8.2. Internal Audit has unrestricted access to all information necessary for carrying out audits.
Yes

2.8.3. Shareholders have received information about the operation of the system of internal controls.
Yes

2.8.4. The Company has a function ensuring compliance (compliance department).
Yes

2.8.5.1. 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

2.8.5.2. The relevant organisation of the Company and the General Meeting received information about the effectiveness of the risk management procedures.
Yes

2.8.6. With the involvement of the relevant areas, the Board of Directors/Governing Board developed the basic principles of risk management, taking into account the unique features of the industry and the Company.
Yes

2.8.7. The Board of Directors/Governing Board defined the principles for the system of internal controls to ensure the management and control of the risks affecting the Company's activities as well as the achievement of its performance and profit objectives.
Yes

2.8.8. The functions of the internal control system reported on the operation of the internal control mechanisms and the corporate governance functions to the competent board at least once a year.
Yes

2.9.2. The Board of Directors/Governing Board invited the Company's auditor in an advisory capacity to meetings involving discussion of the financial reports.
Yes

Level of compliance with the guidances

The Company must specify whether it applies the relevant proposal of the CGR or not. (Yes/No) The Company also has the opportunity to justify any deviation from such proposals.

1.1.3. The Company's Articles of Association provide an opportunity for shareholders to exercise their voting rights in their absence.
Yes

1.2.4. The Company determined the place and time of General Meetings initiated by shareholders by taking the initiating shareholders' proposal into account.
Yes

1.2.5. The voting procedure used by the Company ensures a clear, unambiguous and rapid determination of voting results, and in the case of electronic voting, the validity and reliability of such results.
Yes

1.3.1.1. The Board of Directors and the Supervisory Board were represented at the General Meeting.
Yes

1.3.1.2. In the event of the absence of the Board of Directors/Governing Board and the Supervisory Board, information thereon was disclosed by the Chairman of the General Meeting before discussion of the agenda items.
Yes

1.3.2.1. The Articles of Association of the Company do not preclude any individuals from receiving an invitation to the General Meetings of the Company at the initiative of the Chairman of the Board of Directors/Governing Board and being granted the right to express their opinion and to add comments, if that person's presence and expert opinion is thought to be necessary, and they also help in the provision of information to shareholders and for the General Meeting to make decisions.
Yes

1.3.2.2. The Articles of Association of the Company does not preclude any individual from receiving an invitation to the General Meetings of the Company at the initiative of shareholders requesting to supplement the agenda items of the General Meeting and from being granted the right to express their opinion and to add comments.
Yes

1.3.6. The annual report of the Company, prepared pursuant to the Accounting Act, contains a brief, easy-to-understand and illustrative summary for shareholders, including all material information related to the Company's operations for the year.
Yes

1.4.1. In line with Section 1.4.1, the Company paid dividends within 10 working days to its shareholders who had submitted all the necessary information and documents.
Yes

1.6.11. The Company has published its information notices in English as well, in line with the provisions of Section 1.6.11.
Yes

1.6.12. The Company informed its investors about its operations, financial situation and assets on a regular basis, but at least on a quarterly basis.
Yes

2.9.1. The Company has internal procedures in place regarding the use of external advisors and of their outsourced services.
Yes

RESOLUTION PROPOSAL No. 2/2019

The Annual General Meeting approves OTP Bank Plc.'s 2018 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, has prepared for adoption by the General Meeting the evaluation of the activity performed by the members of the Board of Directors in the reporting year, and then makes a recommendation on granting them discharge from liability.

In the course of 2018 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/Deputy 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. has prepared and drawn up for adoption by the General Meeting the parent-bank and consolidated financial statements for 2017, prepared in accordance with International Financial Reporting Standards.

During the 2018 General Meeting, the Supervisory Board personally ascertained that

- The Board of Directors reported on the Bank's business activity and results achieved in 2017,
- The Board of Directors, in compliance with its statutory obligation, presented its Corporate Governance Report reviewed and approved by the Supervisory Board 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 2017, and of the material data from the report 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 established that,

- in keeping with the Corporate Governance Recommendations of the Budapest Stock Exchange, the Board of Directors of OTP Bank Plc. reviewed, on the basis of evaluation criteria, the effectiveness of its public disclosure processes, and found it to be adequate.

  Among the various Corporate Governance requirements, particular importance is ascribed to the transparency of the Company's operations, as well as to its *public disclosure practices*, which 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, reinforcing the confidence of shareholders and other stakeholders in the Company, as well as the availability to market players of regular, reliable and comparative information to facilitate an accurate appraisal of the Company's operations.

  In addition to observing the statutory provisions relevant to the Company and the provisions of the Budapest Stock Exchange, the Board of Directors ensured 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, in compliance with the statutory provisions and with established practice, has prepared the Bank's Report presenting its Corporate Governance practice for 2017.

  In its Corporate Governance Report, presented to the 2018 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.

  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 regulated by statutory provisions to a high degree, while its operations as a whole are regulated in detail and monitored by the authorities on a continuous basis.
  The various internal control functions of the Bank (risk management, compliance, and its internal audit system) conform to strict standards.

  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 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.

In addition to the above, in the past business year the Board of Directors of OTP Bank Plc.

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%, then
- Stage3 risk exposures above HUF 1 billion,
- 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, as well as the regulations on Risk Assumption, Country Risk Management and Counterparty Rating.
  On the proposal regarding the amendment of OTP Bank Plc.'s Internal Audit Policy, OTP Bank Plc.'s Disclosure Policy according to CRR and the Credit Institutions Act, , on the Conflict of Interest and the GDPR Regulations, the Policy on Insider Trading, on the Policy on Banking Book Interest and Liquidity Risk, OTP Bank Plc.'s Policy on Remuneration Principles, OTP Bank Plc.'s Comprehensive Regulation on Relevant Communication, the Complaints Handling Policy, on the adoption of the Regulations on Proprietary Shares and the Personal Transactions Regulations and on policies and regulations not specified in the list contained in the legal regulations.
- on the OTP Group's Risk Assumption Strategy (2017-2019),
- in respect of OTP Bank and its various subsidiaries, on the contents of the proposal prepared on the review of the "New Product Policy" drawn up in the interest of compliance with consumer protection recommendations,
- 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

Accepted

- the Lending Policy of the Hungarian operation (OTP Bank, OTP Mortgage Bank, Merkantil Bank, OTP Real Estate Leasing, OTP Building Society) for 2018,
- the medium-term development concept for retail remote service channels,
- the report on the Group-level operational risk management activities,
- the report presenting the OTP Group's internal capital adequacy assessment process,
- the report on the implementation of the 2017-2019 collection strategy and the review of foreign Factoring roles, and
- the draft pertaining to the transformation of the Bank's occupational health system,
- the OTP Group's recovery plan, as well as the submission thereof to the MNB as the overall supervisory authority, and
- the reports on the audit of the performance of the tasks contained in the action plan drawn up following the MNB audits, and
- the contents of the proposal presenting the activities and results of the Corporate Directorate, as well as
- the Lending Policy of the Hungarian operation (OTP Bank, OTP Mortgage Bank, Merkantil Bank, OTP Real Estate Leasing, OTP Building Society) for 2019.

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 2017,
- the Corporate Governance Report (in respect of the year 2017),
- 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 audit 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 2019 business, financial and strategic plan of OTP Bank Plc. and the Bank Group.

Received a briefing

- on the activity of the Remuneration Committee in 2017, as well as on the implementation and annual review of the Remuneration Policy of OTP Bank Plc. and the Bank Group in 2017, and on the amendment of the Remuneration Policy,
- on the group members' reports for 2017,
- on the implementation of OBRU's 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 2017 business year,
- on the expansion of the personnel included in the scope of OTP Bank's ESOP Organisation,
- on the group-level internal audit aimed at OTP Group's Recovery Plan and the appropriate application of subsidiary recovery indicators,
- on the audit aimed at the level of regulation, implementation and practice of IT device management and configuration records,

- on the macro-economic scenarios and assumptions for the 2019 business, financial and strategic plan,
- on the back-testing of the fulfillment of corporate strategic action plans,
- 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 comprehensive SREP assessment by the MNB on the OTP Bank Group.

The Supervisory Board of OTP Bank Plc. assesses that in the course of 2018 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. 3/2019

The Annual General Meeting, based on the request of the Board of Directors of the Company, has evaluated the activities of the executive officers in the 2018 business year and certifies that the executive officers gave priority to the interests of the Company when performing their activities during the business year, therefore, grants the discharge of liability determining the appropriateness of the management activities of the executive officers in the business year 2018.

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 2018. They audited not only the separate financial statements and the consolidated financial statements in accordance with International Financial Reporting Standards for the year ended 2018, 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 2019 with the audit procedures. We suggest to approve the remuneration with an increase of 2.8% 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 2019, 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 2019, prepared in accordance with International Financial Reporting Standards.

HUF 67,128,000 + VAT

From this:

Audit fee of the separate annual accounts:	HUF 53,353,000 + VAT
Audit fee of the consolidated annual accounts:	HUF 13,775,000 + VAT

RESOLUTION PROPOSAL No. 4/2019

Concerning the audit of OTP Bank Plc.'s separate and consolidated annual financial statements in accordance with International Financial Reporting Standards for the year 2019, 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 2019 until 30 April 2020.

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 67,128,000 + VAT as the Auditor's remuneration for the audit of the separate and consolidated annual financial statements for the year 2019, prepared in accordance with International Financial Reporting Standards. Out of total remuneration, HUF 53,353,000 + VAT shall be paid in consideration of the audit of the separate annual accounts and HUF 13,775,000 + VAT shall be the fee payable for the audit of the consolidated annual accounts.

PROPOSAL ON THE AMENDMENT OF ARTICLE 9 SECTION 4, ARTICLE 9 SECTION 14, ARTICLE 10 SECTION 1, ARTICLE 10 SECTION 2, ARTICLE 10 SECTION 3, ARTICLE 10 SECTION 4, ARTICLE 11 SECTION 6, ARTICLE 12/A. SECTION 1, ARTICLE 12/A SECTION 2 OF THE OTP BANK PLC.'S ARTICLES OF ASSOCIATION

Proposal on the amendment of Article 9 Section 4, Article 9 Section 14, Article 10 Section 1, Article 10 Section 2, Article 10 Section 3, Article 10 Section 4, Article 11 Section 6, Article 12/A. Section 1, Article 12/A 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 creation of the possibility for the management functions appearing in the position of Chairman & CEO to be held in separate positions, if necessary (AoA [Article 9 Section 4, Article 9 Section 14, Article 10 Section 1, Article 10 Section 2, Article 10 Section 3, Article 10 Section 4, Article 11 Section 6, Article 12/A. Section 1, Article 12/A Section 2])

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 2019 creates the possibility well-known in the corporate governance practice for the management functions appearing in the position of Chairman & CEO to be held in separate positions, if necessary, in order to adapt flexibly to the significant international expansion of the Group and the new market challenges.

PROPOSAL CONCERNING THE CREATION OF THE POSSIBILITY FOR THE MANAGEMENT FUNCTIONS APPEARING IN THE POSITION OF CHAIRMAN & CEO TO BE HELD IN SEPARATE POSITIONS, IF NECESSARY
(AOA [ARTICLE 9 SECTION 4, ARTICLE 9 SECTION 14, ARTICLE 10 SECTION 1, ARTICLE 10 SECTION 2, ARTICLE 10 SECTION 3, ARTICLE 10 SECTION 4, ARTICLE 11 SECTION 6, ARTICLE 12/A. SECTION 1, ARTICLE 12/A SECTION 2])

It is proposed to modify the AoA in order to create the possibility well-known in the corporate governance practice for the management functions appearing in the position of Chairman & CEO to be held in separate positions, if necessary, in order to adapt flexibly to the significant international expansion of the OTP Group and the new market challenges.

[The Board of Directors:]

9.4. 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, unless the Board of Directors decides within its competence that the position of Chairman of the Board of Directors and the Chief Executive Officer of the Company are held by separate persons.

9.14. 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 Chairman & CEO 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. If the Chairman of the Board of Directors and the CEO are different persons, the employer rights in respect of the other executive directors of the Company (CEO, deputy CEOs) are exercised by the Board of Directors through the Chairman of Board of Directors, with the proviso that the Board of Directors shall be notified in advance of the appointment and dismissal of the CEO and Deputy CEOs. With regard to issues related to the exercising of employer's rights in respect of employees, the Company is represented by the persons defined in the Organisational and Operational Regulations of the Company, in accordance with the delegation of authority approved by the Board of Directors.

[Chairman & CEO]

10.1. Tasks are shared between the Board of Directors and the Chairman & CEO in such a way that the daily work of the Company is governed and overseen by the Chairman & CEO within the constraints of the law and the Company Articles of Association, and in accordance with the decisions of the General Meeting and Board of Directors. The Chairman & CEO has the authority to decide upon any matters that do not come under the authority of the General Meeting or Board of Directors in accordance with these Articles of Association. This division of tasks does not affect the statutory liability of the Board of Directors, or of the individual members of the Board of Directors. If the Chairman of the Board of Directors and the CEO are different persons, then the aforesaid rule shall apply adequately with the proviso that between the Chairman of the Board of Directors and CEO the division of the governing and overseeing powers relating to the daily work of the Company is defined by the Board of Directors in the Organisational and Operational Regulations of the Company.

10.2. If the Chairman & CEO is incapacitated, the nominated Deputy Chairman (or designated member of the Board of Directors) may substitute for the Chairman & CEO in his capacity as Chairman, and the Deputy CEO may substitute for him in his capacity as chief executive officer, although the substitution rights shall not extend to the exercising of employer rights. If the Chairman of the Board of Directors and the CEO are different persons, the Chairman of the Board of Directors may be substituted by the nominated Deputy Chairman (or designated member of the Board of Directors), the CEO may be substituted by the nominated Deputy CEO with the proviso that none of the substitution rights shall be extended to the exercising of employer rights.

10.3. The Chairman & CEO exercises employer's rights with respect to the employees of the Company in accordance with point 9.14. If the Chairman of the Board of Directors and the CEO are different persons, then the rules of exercising of employer rights with respect to the employees of the Company are defined – in accordance with point 9.14. – by the Board of Directors in the Organisational and Operational Regulations of the Company.

10.4. The Chairman & CEO governs the work of the Board of Directors and chairs its meetings. If the Chairman of the Board of Directors and the CEO are different persons, then the Chairman of the Board of Directors is vested with this competence.

[The Supervisory Board:]

11.6. Meetings of the Supervisory Board are quorate if at least two thirds of its members are present. Decisions of the Supervisory Board are made with a simple majority of votes.

The Chairman & CEO, or a person delegated by him, must be invited to Supervisory Board meetings. If the Chairman of the Board of Directors and the CEO are different persons, then both the Chairman of the Board of Directors and the CEO shall be invited to meetings of the Supervisory Board.

The Supervisory Board is obliged to include matters proposed by the auditor to the agenda.

[Executive officers of the Company]

12/A.1. The executive officers of the Company include: the Chairman & CEO (or, if the Chairman of the Board of Directors and the CEO are different persons, then the Chairman of the Board of Directors and the CEO), members of the Board of Directors, the Chairman of the Supervisory Board, members of the Supervisory Board, and the Deputy Chief Executive Officers (executive employees).

12/A.2. Executive officers must immediately notify the Chairman & CEO (or, if the Chairman of the Board of Directors and the CEO are different persons, then the Chairman of the Board of Directors shall be notified) if:

a.) they have a qualified holding or a controlling influence in any company as defined in the Credit Institutions Act;

b.) any of their close relatives has a qualified holding or a controlling influence in any company as defined in the Credit Institutions Act;

c.) since their appointment, an event has occurred that disqualifies them from serving as executive officers.

Reasoning:

The purpose of the modification of AoA is to enable the Company to create the possibility, well-known in the corporate governance practice, for the management functions appearing in the position of Chairman & CEO to be held in separate positions – in the function of the Chairman of the Board of Directors and the CEO – in order to adapt flexibly to the significant international expansion of the OTP Group and the new market challenges. In line with current regulations and legal provisions, the modification keeps the power of decision making whether or not to take the opportunity arising from this modification in the competence of the Board of Directors. The proposed amendment also regulates the distribution of the current duties and powers of the Chairman of the Board of Directors and the CEO in the event that the Chairman of the Board of Directors and the CEO are different persons.

RESOLUTION PROPOSAL No. 5/1/2019

The Annual General Meeting decides to amend the Articles of Association by way of a single resolution in accordance with the proposal of the Board of Directors.

RESOLUTION PROPOSAL No. 5/2/2019

The Annual General Meeting approves the amendment of Article 9 Section 4, Article 9 Section 14, Article 10 Section 1, Article 10 Section 2, Article 10 Section 3, Article 10 Section 4, Article 11 Section 6, Article 12/A. Section 1, Article 12/A 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

Considering that Ágnes Rudas, member of the Supervisory Board notified OTP Bank Plc. on her intention to resign with an effective date of 12 April 2019, a new Supervisory Board member shall be appointed.

Since Ágnes Rudas was a delegate of the company's employees, the works council has the right to delegate a new Supervisory Board member replacing her. The works council proposed Klára Bella, director at the Large Corporate Directorate of OTP Bank Plc. as the new member of the Supervisory Board.

KLÁRA BELLA

Graduated at the University of Economics in Budapest and afterwards at the College of Finance and Accountancy.

Between 1992 and 1994 administrator in the Fertőszentmiklós Brach of OTP Bank.
Between 1994 and 1995 credit advisor at Polgári Bank.
Between 1995 and 1996 risk manager at the Central Branch of OTP Bank.
Between 1996 and 1997 credit underwriter at the Credit Underwriting and Risk Management Division.
Between 1997 and 2010 deputy managing director at the Central Branch.
Between 2010 and 2016 director at the Central Branch.
Since 2017 works as the director of Large Corporate Directorate.

RESOLUTION PROPOSAL No. 6/2019

The Annual General Meeting elects Mrs. Klára Bella 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.

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 prudential supervision by the National Bank of Hungary.

Within this institutional scope, 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 line with the group's business and risk strategy, based on which it performs an assessment three times a year 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 at the consolidated level with comprehensive internal risk-analysis methodology 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 the National Bank of Hungary issues a 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.
- Persons who have not been identified by the criteria defined in Commission Delegated Regulation (EU) No 604/2014, but who through their activity may 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 staff identified at the parent bank, as well as identified staff at subsidiaries that do not belong under the effect of 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 sub-consolidated group of the foreign institution who exercise a material impact on the risk profile of an institution operating within the bank-group.
- **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. As a general rule, the 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 OTP Bank Plc.'s Supervisory Board, on the basis of the function, size and complexity of the organisation managed. In respect of the staff identified at sub-consolidated and local level, the Supervisory Board may assign this power – within the framework defined in these Guidelines – to the Bank's General Deputy CEO. 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, in the case of subsidiaries classed as institutions operating within the Bank Group 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:

<table>
<tr><td colspan="2" rowspan="3"></td><td colspan="8">Levels</td></tr>
<tr><td colspan="2">Level 1</td><td colspan="2">Level 2</td><td colspan="2">Level 3</td><td colspan="2">Level 4</td></tr>
<tr><td>min.</td><td>max.</td><td>min.</td><td>max.</td><td>min.</td><td>max.</td><td>min.</td><td>max.</td></tr>
<tr><td rowspan="3">Type of position</td><td>Business</td><td>35%</td><td>50%</td><td>25%</td><td>50%</td><td>14%</td><td>40%</td><td>0%</td><td>25%</td></tr>
<tr><td>Support</td><td>-</td><td>-</td><td>25%</td><td>50%</td><td>0%</td><td>34%</td><td>0%</td><td>25%</td></tr>
<tr><td>Control</td><td>-</td><td>-</td><td>25%</td><td>50%</td><td>0%</td><td>34%</td><td>0%</td><td>25%</td></tr>
</table>

The ratios of performance-based remuneration in the case of subsidiaries not classed as institutions operating within the Bank Group, 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:

<table>
<tr><td colspan="4">Levels</td></tr>
<tr><td colspan="2">Level 1</td><td colspan="2">from Level 2</td></tr>
<tr><td>min.</td><td>max.</td><td>min.</td><td>max.</td></tr>
<tr><td>14%</td><td>50%</td><td>7%</td><td>40%</td></tr>
</table>

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]

[1] This indicator is calculated based on the figures of the Hungarian and foreign companies operating as group members that belonged to the scope of consolidated subsidiaries throughout the entire assessed financial year.

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.

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 at Hungarian subsidiaries exercising a material impact on the risk profile at sub-consolidated level, the performance-based remuneration is, as a general rule, provided in the form of a cash bonus and a share award, with the proviso that the proportion of shares within the performance-based remuneration is at least 50%.
- For persons employed at the foreign 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 deferral 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. On the basis of the assessment of risks related to the activity of the persons concerned, deferred amounts may be reduced or clawed back in the case of a significant breach of the internal regulations, with special respect to those concerning 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 chief executives of subsidiaries identified at consolidated level, exceptions are permitted based on a decision of the Chairman & CEO of OTP Bank Plc. In the case of other staff identified at consolidated level and for chief executives identified at sub-consolidated and local level, OTP Bank Plc.'s General Deputy CEO is entitled to authorise exceptions. For other staff identified at sub-consolidated and local level, exceptions are permitted based on the decision of the subsidiary's chief executive, subject to the consent of the chairperson of the owner's governing body.
- OTP Bank Plc.'s Supervisory Board is entitled to make decisions on the proportionate application of the rules set out in the remuneration guidelines in respect of the settlement of the performance-based remuneration of staff identified at sub-consolidated and local level, whose annual performance-based remuneration does not exceed EUR 50,000 and whose performance-based remuneration within total remuneration for the year represents a ratio of maximum 25%. As part of proportionate application, the application of certain regulations (deferred payment, share-based payment) may be avoided either in part or in full, provided that such departure is not in conflict with local statutory or supervisory provisions. Proportionate application of the rules is not possible for staff who exercise a material impact on the Bank Group's risk profile at consolidated level.

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 arithmetic average of the daily quoted average price of the ordinary shares issued by OTP Bank, as registered by the Budapest Stock Exchange, on the three trading 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 thereof or subscription thereto by the ESOP Organisation – in the manner set out in the ESOP remuneration policy – the beneficiary concerned shall acquire a member's holding in the ESOP Organisation. The member's holding 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 member's holding that does not fulfil the conditions 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. 7/2019

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 determination of the remuneration of the members of OTP Bank's Board of Directors, the Supervisory Board and the Audit Committee is authority of the Annual General Meeting.

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., which determined by General Meeting. The share allowance is settled once a year within 30 days after the date of the General Meeting of OTP Bank Plc., and 50% of the shares are subject to an extended holding obligation (prohibition on sales) up to the end of the end of the beneficiaries' mandates.

The monthly **honorarium of the members of the Supervisory Board** consists of a fixed-amount remuneration settled in Hungarian forint.

The **members of the 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 in 2017**, 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.8/2019

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 Act V of 2013 on the Civil Code (hereinafter referred to as "Civil Code") and Article 8 Section 33 Subsection 13 of OTP Bank Plc's (hereinafter referred to as "Company") Articles of Association, the General Meeting has the power to authorize the Board of Directors to acquire treasury shares.

The Company's Annual General Meeting of 2018, in its resolution no. 10/2018, authorized the Board of Directors to acquire treasury shares. This authorization expires on 11 October 2019; however, the authorization may be reissued.

This aforementioned renewed authorization is provided by the resolution constituting the subject matter of this proposal. The authorization, in accordance with the statutory requirements, is subject to limitations of time and extent, which are specified in the resolution to be submitted to the Annual General Meeting of 2019. Pursuant to the provisions of the Civil Code, the authorization 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. In the previous years, the purpose of the authorization to acquire treasury shares has been always given by the Company. It was defined as the purpose of the authorization for the Board of Directors to acquire treasury shares in the interests of, for instance,

(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 authorization 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 authorized by the National Bank of Hungary (hereinafter referred to as "MNB"), either for each purchase individually or – if this is legally possible – based on a limit-type authorization (hereinafter referred to as "Permission of MNB"). The Company has the necessary Permissions of MNB: (i) in order to ensure the payments as part of the remuneration policy and (ii) for BUX ETF investment units moreover for handling the risks arising from transactions on the BUX Futures.

Based on the authorization 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 authorizations, the authorization set forth in General Meeting resolution no. 10/2018 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 and in all cases provides information to the shareholders at the forthcoming General Meeting.

[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. 9/2019

The Annual General Meeting, based on the Subsection 1 of Section 3:223 of Act V of 2013 on the Civil Code, hereby authorizes the Board of Directors of OTP Bank Plc. (hereinafter referred to as “Bank”) to acquire own shares of the Bank especially for the purpose of supplying the shares necessary for the management incentives system that is in operation at the Bank, 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 issued by the Bank 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 own 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 12 October 2020. The mandate set forth in Annual General Meeting resolution no. 10/2018 shall lose its effect upon the passing of this resolution.