Management's Analysis

Management's analysis of the 2018 results of the OTP Group

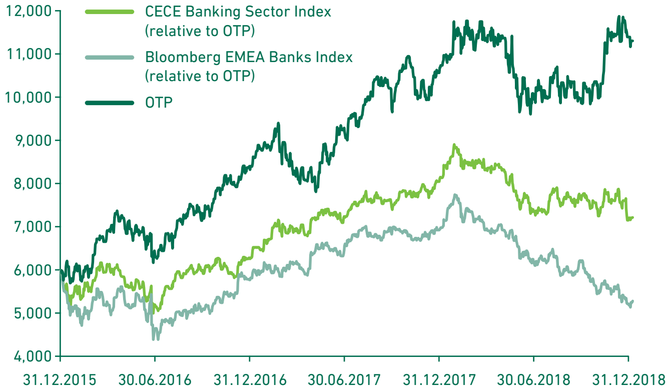
CONSOLIDATED FINANCIAL HIGHLIGHTS[1] AND SHARE DATA

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 (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

* 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 management's analysis.

[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.

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

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 macro-economic 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 unconven-tional 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.

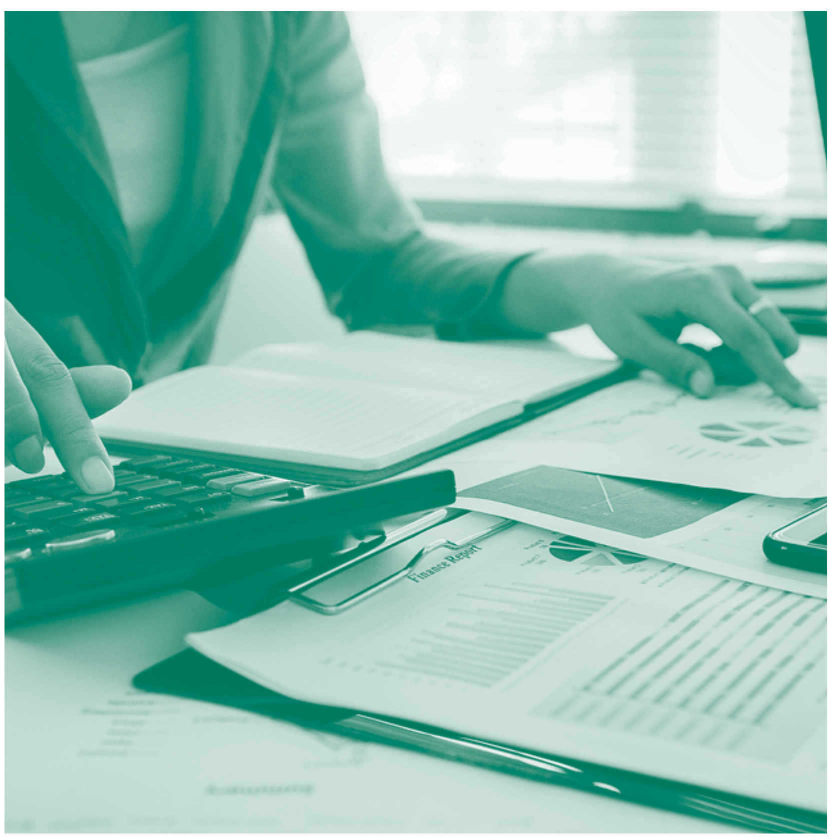
  Taking into consideration the NBH's guide-lines, OTP Bank – with the consent of the auditor – decided to book the total initial positive NPVs in one lump sum within its P&L. As a result, in the adjusted P&L structure the total HUF 20.7 billion (before tax) gain realized in 2018 as a whole was presented 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 0.6 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[2]). 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%

[2] 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.

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.

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% 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 Bank 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)[3]

	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

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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**
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 Tier2 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* of the HUF	2017 HUF	2018 HUF	Change %
HUF/EUR	309	319	3
HUF/CHF	279	276	(1)
HUF/USD	274	270	(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*)	**7,116,207**	**8,066,592**	**13**
Gross customer loans	7,690,419	8,719,342	13
Gross customer loans (FX-adjusted*)	**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*)	**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**	76,028	81,429	7
Total shareholders' equity	**1,640,055**	**1,826,657**	**11**

Indicators	2017	2018	%/pps
Loan/deposit ratio (FX-adjusted*)	75%	77%	2
Net loan/(deposit + retail bond) ratio (FX-adjusted*)	68%	72%	3
Stage 3 loan volume under IFRS 9		753,033	
Stage 3 loans under IFRS 9/gross customer loans		8.6%	
Stage 2 loan volume under IFRS 9		591,870	
Stage 2 loans under IFRS 9/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

* 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.
** The ICES bonds are considered as Tier2 debt, but accounting-wise they are treated as part of the shareholders' equity.

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	2018	Change
	HUF	HUF	%
HUF/EUR	310	322	4
HUF/CHF	265	285	8
HUF/USD	259	281	9

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*	(1.23%)	(1.60%)	(0.37)
Effective tax rate	9.2%	7.5%	(1.6)

*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 head-quarters, 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%[4] 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.

[4] 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 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**	**Change %**
Assets under management, total (w/o duplicates)*	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)**	**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***	434	395	(9)

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.

* 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.
** The cumulative net asset value of investment funds with duplications managed by OTP Fund Management.
*** Other funds: absolute return, derivative and commodity market funds.

MERKANTIL BANK AND CAR (HUNGARY)

Performance of Merkantil Bank and Car:

Main components of P&L account	2017 HUF million	2018 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
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 HUF million	2018 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 IFRS 9 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 IFRS 9 methodology, and the revision of IFRS 9 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% 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 23% y-o-y. During the whole year 52 branches were closed down. The number of employees (based on FTE) decreased by 34 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% 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% 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	2.6%	0.9%	(1.7)
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)
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
Issued securities	51,996	27,328	(47)
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

- 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

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

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 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* (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**

* 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[5]

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.

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

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.
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 wide-spread 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[6]. 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 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.

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

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%

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

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

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 CO2 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

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.

* 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.

Paper usage quantities:

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

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

* The projection basis is the average statistical headcount.

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[7]. 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)

[7] www.otpbank.hu/portal/en/EthicalDeclaration, www.otpbank.hu/static/portal/sw/file/OTP_EtikaiKodex_EN.pdf

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.

	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)**

	2018 HUF million	2017 HUF million
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**

	2018 HUF million	2017 HUF million
Depreciation	**(57,437)**	**(49,493)**
(–) Goodwill impairment charges	(5,962)	(504)
(–) Effect of acquisitions	(3,266)	(2,507)
Depreciation (adj.)	**(48,210)**	**(46,482)**

	2018 HUF million	2017 HUF million
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)**

	2018 HUF million	2017 HUF million
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)**

	2018 HUF million	2017 HUF million
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 loss of OTP Bank Plc., according to IFRS standards as adopted by the European Union (separate, audited)*

	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)

* 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)*

	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)
Non-controlling interest	0	0	
TOTAL SHAREHOLDERS' EQUITY	**1,510,942**	**1,425,257**	**6**
TOTAL LIABILTITIES AND SHAREHOLDERS' EQUITY	**8,506,188**	**7,771,882**	**9**

* 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)*

	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

* 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)*

	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**

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