

Prospectus dated 11 July 2019



OTP Bank Nyrt.

(incorporated with limited liability in Hungary)

€500,000,000

Fixed Rate Reset Callable Subordinated Notes due 15 July 2029

Issue price: 99.738 per cent.

The €500,000,000 Fixed Rate Reset Callable Subordinated Notes due 15 July 2029 (the “Notes”) will be issued by OTP Bank Nyrt. (the “Issuer”) on 15 July 2019 (the “Issue Date”). The Notes will bear interest on their principal amount from (and including) the Issue Date to (but excluding) 15 July 2024 (the “Reset Date”), at a rate of 2.875 per cent. per annum and thereafter at the Reset Rate of Interest as provided in Condition 5. Interest will be payable on the Notes annually in arrear on each Interest Payment Date, commencing on 15 July 2020.

Unless previously redeemed, purchased and cancelled or (pursuant to Condition 6(f)) substituted, the Notes will mature on 15 July 2029. Holders will have no right to require the Issuer to redeem or purchase the Notes at any time. The Issuer may, in its discretion but subject to the conditions described in Condition 6(b), elect to (a) redeem all, but not some only, of the Notes at their principal amount, together with any accrued and unpaid interest thereon from and including the immediately preceding Interest Payment Date up to (but excluding) the Reset Date, or at any time if a Tax Event has occurred and is continuing or a Capital Disqualification Event (each as defined in Condition 18) has occurred and is continuing on the date fixed for redemption or (b) repurchase the Notes at any time. If a Tax Event or Capital Disqualification Event has occurred and is continuing, then the Issuer may, subject to the conditions described in Condition 6(b), either substitute all (but not some only) of the Notes for, or vary the terms of the Notes so that they remain or, as appropriate, become, Qualifying Tier 2 Securities (as defined in Condition 18).

The Notes will be direct, unsecured and subordinated obligations of the Issuer, ranking *pari passu* and without preference amongst themselves, and will, in the event of the Winding-Up (as defined in Condition 18) of the Issuer, be subordinated to the claims of all Senior Creditors (as defined in Condition 18) of the Issuer but shall rank at least *pari passu* with all other subordinated obligations of the Issuer which constitute, or would but for any applicable limitation on the amount of such capital constitute, Tier 2 Capital of the Issuer.

Application has been made to the *Commission de Surveillance du Secteur Financier* (the “CSSF”) in its capacity as competent authority under the Luxembourg act dated 10 July 2005 on prospectuses for securities to approve this document as a prospectus. Application has also been made to the Luxembourg Stock Exchange for the Notes to be admitted to trading on the Luxembourg Stock Exchange’s regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange’s regulated market is a regulated market for the purposes of the Market in Financial Instruments Directive (Directive 2014/65/EU) (as amended, “MiFID II”).

The Notes will be issued in registered form and will be available and transferable in minimum denominations of €100,000 and integral multiples of €1,000 in excess thereof. The Notes will initially be represented by a global certificate in registered form (the “Global Certificate”) and will be registered in the name of a nominee of a common depository for Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking S.A. (“Clearstream, Luxembourg”) and, together with Euroclear, the “Clearing Systems”).

The Notes will be rated Ba1 by Moody’s Investors Service Cyprus Ltd (“Moody’s”). Moody’s is established in the European Economic Area (“EEA”) and is certified under Regulation (EC) No. 1060/2009 (as amended) of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the “CRA Regulation”). A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Amounts payable under the Notes may be calculated by reference to the Euro-zone inter-bank offered rate (“EURIBOR”) which is provided by the European Money Markets Institute (“EMMI”). As at the date of this Prospectus, the EMMI appears on the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority (“ESMA”) pursuant to article 36 of the Benchmark Regulation (Regulation (EU) 2016/1011) (the “BMR”).

Pursuant to section 14 and 18 of Act CXX of 2001 on the Capital Markets, this Prospectus was prepared in connection with a private placement of the Notes in Hungary.

An investment in the Notes involves certain risks. Prospective investors should have regard to the factors described under the section headed “Risk Factors”.

Joint Lead Managers

BNP PARIBAS

Citigroup

OTP BANK

IMPORTANT NOTICES

This Prospectus may be used only for the purposes for which it has been published.

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Certain information in this Prospectus has been extracted or derived from independent sources. Where this is the case, the source has been identified. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by the relevant source, no facts have been omitted which would render the reproduced information inaccurate or misleading.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer.

Save for the Issuer, no other party has separately verified the information contained in this Prospectus. None of the Joint Lead Managers (as defined in “*Subscription and Sale*”) or the Fiscal Agent makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information contained in this Prospectus or any other information provided by the Issuer in connection with the offering of the Notes. None of the Joint Lead Managers or the Fiscal Agent accepts any liability in relation to the information contained in this Prospectus or any other information provided by the Issuer in connection with the offering of the Notes or their distribution. Neither this Prospectus nor any other information supplied in connection with the offering of the Notes is intended to constitute, and should not be considered as, a recommendation by any of the Issuer and the Issuer’s subsidiaries taken as a whole (collectively, the “**OTP Group**”), the Joint Lead Managers or the Fiscal Agent that any recipient of this Prospectus or any other information supplied in connection with the offering of the Notes should purchase the Notes. Each potential purchaser should make its own independent investigation of the financial condition and affairs and its own approval of the credit worthiness of the Issuer and other members of the OTP Group. Each potential purchaser of Notes should determine for itself the relevance of information contained in this Prospectus and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Joint Lead Managers or the Fiscal Agent undertakes to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Prospectus nor to advise any investor or potential investor in the Notes of any information coming to their attention.

In the ordinary course of business, the Joint Lead Managers have engaged and may in the future engage in normal banking or investment banking transactions with the Issuer and its affiliates or any of them.

Neither the delivery of this Prospectus nor the offering, placing, sale or delivery of the Notes shall in any circumstances imply that the information contained in this Prospectus concerning the OTP Group is correct at any time subsequent to the date hereof or that any other information supplied in connection with the offering of the Notes is correct as of any time subsequent to the date indicated in the document containing the same.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”). Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States.

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of the investment in light of its own circumstances. In particular, each potential investor may

wish to consider, either on its own or with the help of its financial and other professional advisers, whether it (a) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus or any applicable supplement; (b) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio; (c) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential Investor's Currency (as defined in this Prospectus); (d) understands thoroughly the terms of the Notes and is familiar with the behaviour of any relevant indices and financial markets; and (e) is able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks. Please see further the section headed "*Risk Factors*" below. If one or more of the risks described in this Prospectus occur, this may result in material decreases in the price of the Notes or, in the worst-case scenario, in a total loss of interest and capital invested.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy the Notes in any jurisdiction to or from any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer does not represent that this Prospectus may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, and it does not assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer which is intended to permit a public offering of the Notes or the distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States and the EEA (including Hungary and the United Kingdom).

MiFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusions that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2016/97/EU (as amended or superseded, the "**IDD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. No key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

IN CONNECTION WITH THE ISSUE OF THE NOTES, BNP PARIBAS AS STABILISATION MANAGER (THE “STABILISATION MANAGER”) (OR PERSONS ACTING ON BEHALF OF THE STABILISATION MANAGER) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION ACTION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISATION MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISATION MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

Unless otherwise specified or the context requires, references to “Euro”, “EUR” and “€” are to the currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty on the Functioning of the European Union, as amended or supplemented from time to time, references to “USD” and “U.S.\$” are to the lawful currency of the United States of America and references to “forint” and “HUF” are to the lawful currency of Hungary.

Exchange Rates

The following table sets forth, for the periods set forth below, the high, low, average and period end Bloomberg Composite Rate expressed as HUF per EUR1.00. The Bloomberg Composite Rate is a “best market” calculation, in which, at any point in time, the bid rate is equal to the highest bid rate of all contributing bank indications and the ask rate is set to the lowest ask rate offered by these banks. The Bloomberg Composite Rate is a mid-value rate between the applied highest bid rate and the lowest ask rate. The rates may differ from the actual rates used in the preparation of the consolidated financial statements and other financial information appearing in this Prospectus. Neither the Issuer nor the Joint Lead Managers represent that the HUF amounts referred to below could be or could have been converted into Euro or USD at any particular rate indicated or any other rate. The average rate for a financial year means the average of the closing Bloomberg Composite Rate on each business day during a year. The average rate for a month, or for any shorter period, means the average of the closing Bloomberg Composite Rate of each business day during that month, or shorter period, as the case may be.

Unless otherwise specified, where financial information in relation to the Issuer has been translated into EUR, it has been so translated, for convenience only, at the rate of HUF 321.51 per EUR1.00. Such translation should not be construed as a representation that the amounts in question have been, could have been or could be converted into EUR at that or any other rate.

The Bloomberg Composite Rate of the Euro on 25 June 2019 was 323.33 HUF per EUR1.00.

	HUF per EUR1.00			
	High	Low	Average	Period end
Year ended 31 December				
2018	329.90	307.77	318.77	320.88
2017	314.93	302.86	309.27	310.63
2016	318.02	304.08	311.44	309.28

HUF per EUR1.00

	High	Low	Average	Period end
Month ended				
31 January 2019	323.16	315.74	319.69	315.85
28 February 2019	319.97	315.85	317.89	315.85
31 March 2019	321.49	313.08	316.06	321.49
30 April 2019	323.77	319.45	321.24	323.77
31 May 2019	327.03	322.98	325.04	324.87

FORWARD-LOOKING STATEMENTS

Certain information contained in this Prospectus, including any information as to the Issuer's strategy, market position, plans or future financial or operating performance, constitutes "forward-looking statements". All statements, other than statements of historical fact, are forward-looking statements. The words "believe", "expect", "anticipate", "contemplate", "target", "plan", "intend", "continue", "budget", "project", "aim", "estimate", "may", "will", "could", "should", "schedule" and similar expressions identify forward-looking statements.

Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Issuer, are inherently subject to significant business, economic and competitive uncertainties and contingencies. Known and unknown factors could cause actual results to differ materially from those projected in the forward-looking statements. Such factors include, but are not limited to, those described in "*Risk Factors*".

Investors are cautioned that forward-looking statements are not guarantees of future performance. Forward-looking statements may, and often do, differ materially from actual results. Any forward looking statements in this Prospectus speak only as at the date of this Prospectus, reflect the current view of the board of directors of the Issuer with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Issuer's operations, results of operations, strategy, liquidity, capital and leverage ratios and the availability of new funding. Investors should specifically consider the factors identified in this Prospectus that could cause actual results to differ before making an investment decision. All of the forward-looking statements made in this Prospectus are qualified by these cautionary statements. Specific reference is made to the information set out in "*Risk Factors*" and "*Description of the Issuer's Business*".

Subject to applicable law or regulation, the Issuer explicitly disclaims any intention or obligation or undertaking publicly to release the result of any revisions to any forward-looking statements in this Prospectus that may occur due to any change in the Issuer's expectations or to reflect events or circumstances after the date of this Prospectus.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Historical financial information

The historical financial information appended to this Prospectus has been prepared in accordance with the International Financial Reporting Standards (the “IFRS”) issued by the International Accounting Standards Board (“IASB”) and as adopted by the European Union. The historical financial information presented in this Prospectus consists of (i) consolidated audited financial information of the Issuer for the financial years ended 31 December 2017 and 31 December 2018 and (ii) first quarter financial results for the three months ended 31 March 2019 (English translations of the original report submitted to the Budapest Stock Exchange) containing the unaudited separate and consolidated financial statements for the period (the “Q1 Interim Financial Statements”). The Q1 Interim Financial Statements have not been audited or reviewed by the Issuer’s auditors.

Alternative Performance Measures and other Financial Measures

The Issuer presents certain key performance measures that are not defined under IFRS or Hungarian GAAP but that it finds useful in analysing its results and that it believes are widely used by investors to monitor the results of banks generally. Some of these measures are defined by, and calculated in compliance with, applicable banking regulations, but these regulations often provide the Issuer with certain discretion in making its calculations.

These alternative performance measures (“APMs”) may not be indicative of the Issuer’s historical operating results, nor are such measures meant to be predictive of its future results. The Issuer presents these APMs because it considers them an important supplemental measure of its performance and believes that they and similar measures are widely used in the industry in which it operates as a means of evaluating a company’s results. However, not all banks and financial institutions calculate APMs in the same manner or on a consistent basis. As a result, these measures may not be comparable to measures used by other banks and financial institutions under the same or similar names. Accordingly, undue reliance should not be placed on the APMs contained in this Prospectus and they should not be considered as a substitute for financial measures computed in accordance with IFRS or Hungarian GAAP.

The APMs include Adjusted net profit for the year, Adjusted net interest income, Adjusted net profit from fees and commissions, Adjusted other net non-interest income without one-offs, Adjusted total income, Adjusted operating expenses, Adjusted provision for impairment on loan and placement losses, Return On Equity (“ROE”), Adjusted ROE, Adjusted Return on Assets, Total revenue margin, Net interest margin, Cost-to-asset ratio, Cost/income ratio, Risk cost rate, Leverage (average equity / average assets), Stage 3 ratio, Own coverage of Stage 3 loans, DPD90+ ratio, DPD90+ coverage, Net loan-to deposit ratio, Net loans to deposits including retail bonds ratio.

Each of the APMs is described below and reconciliations of these measures to the Issuer’s IFRS financial statements are set out below under the section headed “*Financial Performance of the OTP Group - Alternative Performance Measures*”.

Because of the discretion that the Issuer and other banks have in defining these measures and calculating the reported amounts, care should be taken in comparing these various measures with similar measures used by other banks. These measures should not be used as a substitute for evaluating the performance of the Issuer based on its audited balance sheet and results of operations.

Certain measures are included in this Prospectus that are not measures presented in accordance with, or defined by, IFRS as adopted by the EU. However, such measures have been prepared on the basis of the Issuer’s unaudited separate and consolidated IFRS financial statements or derived from that.

The Issuer believes that the presentation of these non-IFRS measures enhances an investor's understanding of the OTP Group's financial performance in the years presented and provides helpful comparisons of financial performance between periods by providing segmented financial information and adjusting for the distorting effect of, *inter alia*, certain, typically non-recurring items, intra-group transactions, acquisitions and foreign exchange rate movements. These adjustments include separating or reclassifying certain financial statement items, including profit and loss statement lines and balance sheet lines. These non-IFRS measures are not presented in accordance with IFRS and the Issuer's use of them may vary from, and not be comparable with, non-IFRS measures used by other companies. These non-IFRS measures should not be considered in isolation or as a substitute for financial information as reported under IFRS. Please see either the Q1 Interim Financial Statements or OTP Bank Plc. - Documents for the Annual General Meeting - The report of the Board of Directors on the Company's business operations in 2018, 21 March 2019 for further details regarding the adjustments made to the IFRS measures.

Non-financial information operating data

The non-financial operating data included in this Prospectus has been extracted without material adjustment from the management records of the Issuer and is unaudited.

Roundings

Percentages and certain amounts in this Prospectus, including financial, statistical and operating information, have been rounded. As a result, the figures shown as totals may not be the precise sum of the figures that precede them.

Market, economic and industry data

Certain information in this Prospectus has been sourced from third parties. The Issuer confirms that all third party information contained in this Prospectus has been accurately reproduced and, so far as the Issuer is aware and able to ascertain from information published by that third party, no facts have been omitted that would render the reproduced information inaccurate or misleading.

Where third party information has been used in this Prospectus, the source of such information has been identified.

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OVERVIEW OF THE PRINCIPAL FEATURES OF THE NOTES

The following overview provides an overview of certain of the principal features of the Notes and is qualified by the more detailed information contained elsewhere in this Prospectus. Capitalised terms which are defined in “Terms and Conditions of the Notes” have the same respective meanings when used in this overview. References to numbered Conditions are to the terms and conditions of the Notes (the “**Conditions**”) as set out under “Terms and Conditions of the Notes”.

Issuer	OTP Bank Nyrt.
Legal Entity Identifier (“LEI”)	529900W3MOO00A18X956
Fiscal Agent, Transfer Agent and Agent Bank	Citibank, N.A., London Branch
Registrar	Citigroup Global Markets Europe AG
Luxembourg Listing Agent	Banque Internationale á Luxembourg SA
Notes	€500,000,000 Fixed Rate Reset Callable Subordinated Notes due 15 July 2029
Risk Factors	There are certain factors that may affect the Issuer’s ability to fulfil its obligations under the Notes. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with the Notes and certain risks relating to the structure of the Notes. These are set out under “ <i>Risk Factors</i> ”.
Status of the Notes	The Notes will constitute direct, unsecured and subordinated obligations of the Issuer and will rank <i>pari passu</i> , without any preference, among themselves.
Rights on a Winding-Up	The rights and claims of Holders in the event of a Winding-Up of the Issuer are described in Conditions 3 and 4.
Interest	<p>The Notes will bear interest on their principal amount:</p> <p>(a) from (and including) the Issue Date to (but excluding) the Reset Date, at the rate of 2.875 per cent. per annum; and</p> <p>(b) thereafter, at the Reset Rate of Interest, determined by the Agent Bank on the Reset Determination Date as the sum of the Reset Reference Rate and the Margin (as described in Condition 5),</p> <p>in each case payable, annually in arrear on 15 July in each year (each, an “Interest Payment Date”), commencing on 15 July 2020.</p> <p>The Reset Reference Rate shall be determined by reference to Reuters screen page “ICESWAP2/EURSFIXA”, subject to the fallback and other provisions set out in the Conditions.</p> <p>In addition, in the event a Benchmark Event occurs (a) a Successor Rate or, failing which, an Alternative Reference Rate,</p>

and (b) in either case, an Adjustment Spread may be used for the purposes of determining the Reset Rate of Interest.

Maturity

Unless previously redeemed, purchased and cancelled or substituted, the Notes will mature on 15 July 2029. The Notes may only be redeemed, purchased or substituted by the Issuer in the circumstances described below (as more fully described in Condition 6).

Optional Redemption

The Issuer may, in its sole discretion but subject to the conditions set out under “*Conditions to Early Redemption, Substitution, Variation and Purchase*” below, redeem all (but not some only) of the Notes on the Reset Date at their principal amount together with any accrued and unpaid interest thereon from (and including) the immediately preceding Interest Payment Date up to (but excluding) the Reset Date

Redemption Following a Capital Disqualification Event or a Tax Event

The Issuer may, in its sole discretion but subject to the conditions set out under “*Conditions to Early Redemption, Substitution, Variation and Purchase*” below, redeem all (but not some only) of the Notes at any time following the occurrence of a Capital Disqualification Event or a Tax Event, in each case which has occurred and is continuing, and in each case, at their principal amount together with interest accrued and unpaid from (and including) the immediately preceding Interest Payment Date up to (but excluding) the relevant redemption date, subject to, in the case of a redemption occurring prior to the fifth anniversary of the Issue Date, the Issuer demonstrating to the satisfaction of the Competent Authority (if and to the extent then required under prevailing Regulatory Capital Requirements) that (i) in the case of a Tax Event, the relevant change in tax treatment is material and was not reasonably foreseeable as at the Issue Date or (ii) in the case of a Capital Disqualification Event, the relevant change in regulatory classification of the Notes was not reasonably foreseeable as at the Issue Date.

Substitution and Variation Following a Capital Disqualification Event or a Tax Event

The Issuer may, subject to certain conditions and upon notice to Holders, at any time elect to substitute all (but not some only) of the Notes for, or vary the terms of the Notes so that they remain or become (as applicable), Qualifying Tier 2 Securities if, prior to the giving of the relevant notice to Holders, a Tax Event or Capital Disqualification Event has occurred and is continuing.

Conditions to Early Redemption, Substitution, Variation and Purchase

Any redemption or purchase of the Notes prior to their maturity or any substitution or variation of the Notes will be subject to obtaining Supervisory Permission and in the case of any redemption or purchase (to the extent required by prevailing Regulatory Capital Requirements) to either:

- (a) the Issuer having replaced the Notes with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Issuer; or
- (b) the Issuer having demonstrated to the satisfaction of the Competent Authority that the own funds of the Issuer would, following such redemption or purchase, exceed its minimum capital requirements (including any capital buffer requirements) by a margin that the Competent Authority considers necessary at such time.

If, at the time of a redemption, purchase, substitution or variation, the prevailing Regulatory Capital Requirements permit the redemption (or purchase, substitution or variation) after compliance with one or more alternative or additional pre-conditions to those set out in paragraphs (a) and (b) above or under “*Redemption following a Capital Disqualification Event or a Tax Event*” above, the Issuer shall instead comply with such other pre-condition(s).

Purchase of the Notes

The Issuer may, at its option but subject to the conditions set out under “*Conditions to Early Redemption, Substitution, Variation and Purchase*” above, purchase (or otherwise acquire) any of the outstanding Notes at any price in the open market or otherwise. All Notes purchased by or on behalf of the Issuer may, subject to obtaining any Supervisory Permission therefor, be held, reissued, resold or, at the option of the Issuer, cancelled.

Withholding Tax and Additional Amounts

All payments by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the Relevant Jurisdiction or any political subdivision thereof or by any authority therein or thereof having power to tax, unless the withholding or deduction is required by law. In that event, in respect of payments of interest (but not principal or any other amount), the Issuer will (subject to certain customary exceptions, as described in Condition 9) pay such additional amounts as may be necessary in order that the net amounts received by the Holders in respect of payments of interest after the withholding or deduction shall equal the amounts which would have been receivable in respect of interest on the Notes in the absence of such withholding or deduction.

In no event will the Issuer be required to pay any Additional Amounts in respect of the Notes for, or on account of, any withholding or deduction required pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 and any regulations or agreements thereunder or any official interpretations thereof or any law implementing an intergovernmental approach thereto.

Enforcement

If the Issuer has not made payment of any amount in respect of the Notes for a period of seven days or more (in the case of principal) or 14 days or more (in the case of interest), in each case after the date on which such payment is due, the Issuer shall be deemed to be in default under the Notes and, unless proceedings for a Winding-Up have already commenced, a Holder may institute proceedings for a winding-up. A Holder may prove and/or claim in any Winding-Up of the Issuer (whether or not instituted by the Holder) and shall have such claim as contemplated in Condition 4(a).

The Holder may, at its discretion and without notice, institute such other proceedings and/or take any other steps or action against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Notes (other than any payment obligation, including any damages) provided that in no event shall the Issuer, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it pursuant to the Conditions.

See Condition 8 for further information.

Modification

The Fiscal Agency Agreement will contain provisions for convening meetings of Holders to consider any matter affecting their interests, pursuant to which defined majorities of the Holders may consent to the modification or abrogation of any of the Conditions, and any such modification or abrogation shall be binding on all Holders.

Form

The Notes will be issued in registered form. The Notes will initially be represented by a Global Certificate and will be registered in the name of a nominee of a common depository for the Clearing Systems.

Denomination

€100,000 and integral multiples of €1,000 in excess thereof.

Clearing Systems

Euroclear and Clearstream, Luxembourg.

Rating

The Notes will be rated Ba 1 by Moody's. A security rating is not a recommendation to buy, sell or hold the Notes and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agencies. Any adverse change in an applicable credit rating could adversely affect the trading price of the Notes. Ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed in this Prospectus and other factors that may affect the value of the Notes.

Listing and Admission to Trading

Application has been made for the Notes to be admitted to the Official List of Luxembourg Stock Exchange and to trading on the regulated market of the Luxembourg Stock Exchange. The regulated market of Luxembourg Stock Exchange is a regulated market for the purposes of MiFID II.

Selling Restrictions

There are restrictions on the offer, sale and transfer of the Notes in the United States and the EEA (including the United Kingdom, Hungary and Italy). See “*Subscription and Sale*”.

The Issuer is Category 1 for the purposes of Regulation S under the Securities Act, as amended.

Governing Law

The Notes, and any non-contractual obligations arising out of or in connection with the Notes, will be governed by, and construed in accordance with, English law, save that the provisions of Condition 4 relating to the subordination of the Notes and waiver of set-off are governed by, and shall be construed in accordance with, the laws of Hungary.

ISIN

XS2022388586

Common Code

202238858

RISK FACTORS

Any investment in the Notes is subject to a number of risks, most of which are contingencies which may or may not occur, and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

Prior to investing in the Notes, prospective investors should carefully consider the risk factors associated with any investment in the Notes, the Issuer, the wider OTP Group and the financial services industry in Central and Eastern Europe in general, together with all the other information contained in this document. This section describes the risk factors which are considered by the Issuer to be material to the Issuer and an investment in the Notes. However, these should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. There may be other risks and uncertainties which are currently not known to the Issuer or which it currently does not consider to be material. Should any of the risks described below, or any other risks or uncertainties, occur this could have a material adverse effect on the Issuer's business, results of operation, financial condition or prospects which in turn would be likely to cause the price of the Notes to decline and, as a result, an investor in the Notes could lose some or all of its investment.

Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with the Notes are also described below. Any of these factors, individually or in the aggregate, could have an adverse effect on the Issuer's business, results of operations, financial condition, and prospects which in turn would be likely to cause the price of the Notes to decline and, as a result, an investor in the Notes could lose some or all of its investment. In addition, many of these factors are correlated and may require changes to the Issuer's and/or the OTP Group's capital requirements, and events described therein could therefore have a compounding adverse effect on the Issuer.

Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

Risks related to the Issuer

The OTP Group is exposed to adverse global economic and business conditions in the markets in which it operates

The profitability of the OTP Group could be adversely affected by a worsening of general economic conditions in the markets in which the OTP Group operates, globally or in certain markets such as the EEA generally. The current outlook for the global economy and financial markets has been shaped by a combination of economic and political events including expansionary fiscal policy changes in the United States, a weakening Chinese economy and a decline in global commodity prices such as crude oil. Import restrictions announced by the United States in 2018, retaliatory actions by China, and potential retaliation by other countries also pose a significant risk to global economic activity and sentiment.

Factors such as interest rates, inflation, investor sentiment, the availability and cost of credit, the liquidity of the global financial markets and the level and volatility of equity prices could significantly affect the financial condition of the OTP Group. As such, the prospects of the OTP Group, and in turn the Issuer, could be significantly affected by an economic downturn, and higher interest rates could adversely affect the credit quality of the Issuer's on-balance sheet and off-balance sheet assets by increasing the risk that a greater number of the Issuer's customers would be unable to meet their obligations.

A market downturn would also be likely to lead to a decline in the volume of transactions which the OTP Group executes and, therefore, could result in a decrease in the income it receives from fees, commissions and interest.

Adverse global economic developments may also have a negative impact on the customers of the OTP Group in a number of ways, including, *inter alia*, their income, solvency or financial wealth, which in turn could reduce the credit quality of the Issuer. An economic downturn or further financial turmoil could lead to social and economic dislocations or an erosion of confidence in financial institutions, which could trigger ‘bank runs’.

Fluctuations in the debt and equity markets may affect the market value and liquidity of the OTP Group’s assets. The deteriorating credit quality of the Issuer’s customers may in particular result in increasing defaults and arrears in monthly payments on loans, higher credit impairments on the loan portfolios of the Issuer, declining mortgage asset values and flat or decreasing loan portfolio levels, which could adversely affect the Issuer’s ability to service payment obligations including those in respect of the Notes. Furthermore, lower demand for, and origination of, new loans, as a result of more stringent lending requirements, could expose the Issuer to the risk of losing customers to competitors with less stringent lending requirements.

General economic conditions, which may in particular influence the financial viability of the Issuer’s activities, include the following:

- (i) changes in foreign exchange rates;
- (ii) volatility in interest rates;
- (iii) lack of liquidity in wholesale funding markets in periods of economic or political crisis;
- (iv) illiquidity and downward price pressure in real estate markets;
- (v) recession and employment fluctuations; and
- (vi) borrower perception as to the continuing availability of credit and price competition in the market segments served by the Issuer.

The OTP Group faces political and economic risks in certain markets in which it operates

The Issuer has a number of subsidiaries in Central and Eastern European (“CEE”) countries as well as in Russia and Ukraine, and as a result, the OTP Group’s business is exposed to risks common to regions undergoing rapid political, economic and social changes, including currency fluctuations, exchange control restrictions, an evolving regulatory environment, inflation, economic recession, local market disruptions and labour unrest. As at 31 December 2018, non-Hungarian business of the OTP Group represented 50 per cent. of the OTP Group’s total assets. As at 31 December 2018, the member of the OTP Group operating in Russia comprises 5 per cent. and the member of the OTP Group operating in Ukraine comprises 3 per cent., of the OTP Group’s total assets and their relative share has declined in recent years in correlation to the OTP Group’s expansion elsewhere.

As certain countries where the OTP Group operates, in particular, Russia, Ukraine and Albania, do not possess the well-developed legal and regulatory infrastructure that would generally exist in a more established free-market economy, the OTP Group may face uncertainty with respect to the interpretation of laws and regulations imposed in such jurisdictions and, in the event of dispute, may have limited recourse within the current or future legal and political systems, which can result in a number of risks for the OTP Group in relation to such markets. These risks include the lack of judicial and administrative guidance on interpreting legislation, a potentially higher degree of discretion on the part of governmental authorities (which could result in arbitrary or selective actions against the OTP Group, including suspension or termination of licences the OTP Group needs to operate), working with less developed bankruptcy, insolvency and corporate reorganisation procedures, including procedures for enforcing collateral and other security interests taken by the OTP Group, that are subject to abuse, and incidents or periods of high crime or corruption that could disrupt the OTP Group’s ability to conduct its business effectively. The occurrence of one or more of these events may also affect the ability of the Issuer’s clients or counterparties located in the affected country or region to obtain foreign currency or credit and, therefore, to perform their obligations towards the Issuer or other members of the OTP Group. In addition,

the recent increase in geopolitical tensions, for example between Russia and Ukraine, combined with Ukraine's weak economic conditions, have created great uncertainty in Ukraine and the global markets. Related events such as the international sanctions imposed, for example, by the United States and the EU against Russia due to the events in Crimea and export limitations imposed by Russia as a counteraction, may have a material adverse effect on the economic climate and the economic stability of the countries in which the OTP Group operates.

Certain countries in the EU where the OTP Group operates may face further challenges in coming years due, in part, to EU legal, fiscal and monetary policies, which may limit a country's ability to respond to local economic circumstances. A decrease in the availability of liquidity, the region's dependence on foreign funding, a widening of credit spreads, downgrades in the ratings assigned to a number of countries and many banks, as well as pressure on the region's currencies have contributed to a review of the growth prospects of the region.

The OTP Group's profitability is subject to fluctuations in the economies in which it operates

Due to its size and openness, the Hungarian economy is affected by international, particularly European, market trends. Hungary's economy may, therefore, be adversely affected by market downturns and economic slowdowns elsewhere in the world. Hungary's economy and currency may also be vulnerable to changes in the international credit markets. Furthermore, deteriorating internal and external indicators may force successive governments to adopt austerity measures. The Hungarian Government itself may have to take economic policy, fiscal or monetary decisions that may have a negative impact on the Issuer and the OTP Group's profitability. Such policies may increase tensions with the EU, causing Hungarian borrowing costs to rise above sustainable levels. In addition, it may be the case that governments take economic policy, fiscal or monetary decisions that may have a negative impact on the Issuer and the OTP Group's profitability. Furthermore, the general concerns over the future of the current Eurozone may have an adverse effect on the overall stability of the countries in which the OTP Group operates. Consequently, this may have an adverse effect on the Issuer and the other members of the OTP Group's businesses, financial condition and results of operations.

International trends have an immediate and powerful bearing on the development of Hungarian interest rates as well as on stock and financial market prices. Such changes have a significant effect on the Issuer's access to funds and the conditions for raising them.

In 2018, the economies of the CEE countries in which members of the OTP Group operate enjoyed a generally supportive operating environment, but there is a growing risk of an economic slowdown, in light of, for example, the positive trend of increasing GDP growth and an improving unemployment rate. The Bulgarian, Croatian and Romanian economies enjoyed fairly supportive international environment. Also, as a result of the political uncertainties in North African countries tourists instead chose to travel to these countries, especially to Croatia and Bulgaria, but also to Montenegro. As a result, tourism revenue positively influenced the major balance indicators. However, if the situation in the North African region corrects itself, it can negatively impact those Balkan economies. Furthermore, there are signs of the Romanian economy getting overheated, fuelled by recent tax cuts and wage increases. As a result, the budget deficit jumped to 3 per cent. of GDP and the external balance started deteriorating. Given that Ukraine has substantial external debt to redeem, it is critical that there is constructive dialogue with the other EU members and the IMF in order to ensure the relative stability of the local currency.

The OTP Group's activities and the profitability of its operations are strongly affected by the macroeconomic environment and the domestic and international perception of the economies in which it operates. The macroeconomic situation will, on the one hand, determine the magnitude of lending and on the other hand, the demand for the Notes. All these may in turn have a negative impact on the OTP Group's profitability.

The OTP Group is exposed to credit risk of its customers and counterparties

Credit risk is present and inherent in both on-balance sheet transactions and off-balance sheet commitments.

The credit risk faced by the Issuer and other members of the OTP Group arises primarily from the risks of non-payment and default on the part of the Issuer and other OTP Group members' borrowers and other counterparties. Any deterioration or adverse change in the creditworthiness of the Issuer and the OTP Group members' borrowers and other counterparties, or a fall in collateral values, are likely to affect the recoverability and value of the Issuer and other OTP Group members' assets, and could require an increase in provisions appropriated either in respect of individual OTP Group members or at Group level, which in turn could have a negative impact on the financial performance of the Issuer and the OTP Group.

In addition, third parties that owe the Issuer or any member of the OTP Group money, securities or other assets may not perform their obligations due to bankruptcy, shortage in liquidity, downturns in the economy and real estate values, operational failure or any other reasons.

Many of these transactions expose the Issuer and the OTP Group to the risk of the relevant counterparty defaulting on its obligations prior to maturity when the Issuer or a member of the OTP Group has an outstanding claim against that counterparty. This counterparty credit risk may also be increased where the collateral held by the Issuer or a member of the OTP Group cannot be realised or is liquidated at prices not sufficient to recover the full amount of the counterparty exposure. In addition, counterparty credit risk also arises from holding debt instruments as the issuers (including financial institutions, sovereigns, supranational entities and corporations) of such debt instruments may default on their obligations thereunder due to insolvency, political events, lack of liquidity, operational failure or a number of other reasons. Furthermore, the deteriorating solvency of such counterparties may impair the efficacy of the Issuer and the OTP Group's hedging and other risk management strategies.

Credit risk tends to be aggravated during periods of economic downturn or stagnation, which are typically characterised by higher rates of insolvencies and defaults. In addition, the credit risk faced by the Issuer and other members of the OTP Group is increased by the fact that part of the OTP Group's business is conducted in markets with generally higher risk, including country risk, such as operations in Russia and Ukraine. There is a risk of losses arising from economic difficulties or political unrest and international sanctions in such countries.

Any negative developments in the operating performance, loan-loss levels, write-downs and impairments of the Issuer and the OTP Group could adversely affect their results and may result in capital requirements that could constrain their operations, thereby reducing the Issuer's ability to service payments under the Notes and potentially adversely affecting the trading price of the Notes. The deteriorating credit quality of the Issuer's customers, in particular, may result in increasing defaults and arrears in payments on loans which could adversely affect the Issuer's ability to service payment obligations under the Notes.

The OTP Group, on a consolidated basis, sets aside provisions for loan losses in accordance with IFRS. As at 31 December 2018, the OTP Group's own coverage of Stage 3 loans was 66.8 per cent. The provisions made are, however, based on available information, historical data, estimates and assumptions, and are subject to uncertainties and external factors, such as the quality and value of collateral held. Furthermore, actual credit impairments vary over the business cycle and, due to prevailing market conditions, additional credit impairments may occur at a rate higher than that experienced in the past. Moreover, the uncertainties and unusual market conditions that have arisen in the aftermath of the global financial crisis may result in models currently used by the OTP Group for credit assessment purposes being inadequate and may have a negative impact on the OTP Group's ability to reliably assess default and credit migration risks. Future provisions for non-performing loans and an increase in the amount of allowances for credit impairments and credit impairments not covered by allowances could have a materially adverse effect on the Issuer and the OTP

Group's operating results. In addition, a downturn in the global economy could potentially result in a higher proportion of non-performing loans.

No assurance can be given that the provisions made by the OTP Group will be sufficient to cover the amount of loan losses as they occur.

The OTP Group is exposed to risks relating to the realisation of its security interests

The exposure arising from defaults by borrowers on loans can be counterbalanced, *inter alia*, by enforcement actions taken in order to realise the encumbered asset serving as security to such loans. Therefore, the credit risk of the Issuer and the other OTP Group members may be increased when the security it holds cannot be enforced or is liquidated at prices insufficient to recover the full amount due and payable under the relevant loan. The market value at which collateralised assets can be sold, and thus the results of realisation through such enforcement actions, heavily depends on the then prevailing market of the collateralised assets (such as, but not limited to, the real estate market) and the legal environment, as amended from time to time.

Further, the ability of the Issuer and the other members of the OTP Group to enforce security without the consent of the respective borrower may be dependent on the relevant court decision and execution measures and on other relevant circumstances in the real estate or mortgage markets.

The ability of the Issuer and the other members of the OTP Group to enforce the security interests they have taken in real estate properties may be adversely affected in the future by regulatory or governmental measures such as the imposition of transitional moratoriums, quota regimes imposed on evictions and enforcement sales outside of the court processes.

There is no guarantee that governments or legislative bodies in other countries where the OTP Group operates will not adopt similar or other measures adversely affecting the ability of the Issuer or a member of the OTP Group to enforce any security interest it has taken over real estate property or that the Hungarian Government will not introduce further restrictions in relation to foreclosure proceedings against mortgaged properties.

Any failure to recover the expected value of the security taken by the Issuer, or other members of the OTP Group, may expose the Issuer and the other members of the OTP Group to losses, which may have a material adverse effect on the Issuer and the other members of the OTP Group's businesses, financial condition and results of operations.

The OTP Group may be adversely affected by the risks associated with the integration of the OTP Group's acquisitions in the CEE region

The OTP Group's recent acquisitions in the CEE region and the expansion and integration of its acquired businesses may have an impact upon the consolidated financial results of the Issuer. The ongoing integration also requires the Issuer to monitor the risk of these operations and incur continued capital expenditure, which may give rise to execution risk in respect of implementation. There is no assurance as to the future profitability of the Issuer's acquisitions and their continued strategic viability as part of the OTP Group.

The integration of these acquisitions has involved and will involve integration challenges, particularly where management information and accounting systems differ materially from those used elsewhere in the OTP Group. Furthermore, the OTP Group may face unknown actual or potential liabilities arising from any of these acquisitions, which, in turn, may result in unexpected losses in relation to the acquired businesses and may impose further capital requirements on such subsidiaries. Unexpected losses or a failure to establish clear governance rules within the OTP Group and to align the strategies of the members of the OTP Group with the overall strategy of the OTP Group as a whole, as well as a failure to integrate the businesses of the OTP Group, could result in an inability to implement some or all of the OTP Group's strategic goals or to fully realise expected synergies, all of which could have a material adverse effect on the OTP Group's business, financial

condition and results of operations. Integration of the recent acquisitions also assumes higher attention and time spent by the management of the Issuer and the management of affected subsidiaries, which may result in decreased attention to the regular banking business and decreasing profitability.

The OTP Group is dependent on customer deposits for liquidity

In managing its liquidity risk, the OTP Group is dependent on external sources of funding through deposits and wholesale markets. The ability of the OTP Group to access these funding sources on favourable economic terms, or at all, in circumstances where the OTP Group's financial condition and/or the economies in which the OTP Group operates substantially deteriorates, is subject to a variety of factors, including a number of factors outside of its control, such as liquidity constraints, general market conditions and the level of confidence in the OTP Group.

Currently, the OTP Group's principal source of funds is customer deposits, particularly retail deposits. As at 31 December 2018, customer deposits represented 88 per cent. of total liabilities (77 per cent. of total assets).

The availability of ongoing funding from customer deposits is subject to factors such as depositors' concerns relating to the economy in general, the financial services industry and the OTP Group specifically, and any significant deterioration in economic conditions in the countries in which the OTP Group operates. Any of these factors separately or in combination could lead to a sustained reduction in the OTP Group's ability to access customer deposit funding on appropriate terms in the future.

If there is a material decrease in the OTP Group's customer deposits or a large unexpected outflow of deposits, the OTP Group may not be able to maintain its current levels of funding without disposing of a number of the OTP Group's assets or having to raise additional funding through other sources.

The OTP Group is exposed to risks associated with movements in interest rates

The Issuer and certain members of the OTP Group earn interest from loans and other assets, and pay interest to its depositors and other creditors. The Issuer may fund its assets with fixed and/or relatively high interest rates, by liabilities obtained at floating and/or lower interest rates, and vice versa. Interest rate risk may also arise when interest rate fixing periods on assets and liabilities do not coincide. A mismatch of interest-earning assets and interest-bearing liabilities in any given period, which tends to accompany changes in interest rates, may have a material adverse effect on the financial conditions and results of operations of the Issuer and the OTP Group.

Interest rates are highly sensitive to many factors beyond the Issuer and other OTP Group members' control, including monetary policies and domestic and international economic and political conditions. As with any bank, changes in market interest rates (including changes in the difference between prevailing short-term and long-term rates) and correlations between changes in interest rates in the reference markets and those in interest margins could affect the interest rates the Issuer and certain members of the OTP Group charge on their interest-earning assets in a different way to the interest rates they pay on their interest-bearing liabilities. This difference could reduce the Issuer and other OTP Group members' net interest income.

In 2018, most of the central banks in the countries in which members of the OTP Group operate maintained relatively loose monetary policy conditions, but in Ukraine, Romania and Russia there were policy rate increases. In 2019, inflation pressure stemming from wage increases and robust local demand may push central banks towards a more stringent stance. Higher interest rates may impose higher disbursement burdens for corporate and retail clients with variable rate loan exposures. While corporate clients may use hedging instruments, the micro and small enterprise sector, as well as the retail segment may become more exposed to higher interest rates.

The OTP Group could be adversely affected by fluctuations in currency exchange rates

The OTP Group is exposed to foreign exchange risk because the assets and the liabilities of the Issuer and the members of the OTP Group may be denominated in a currency different from those of the liabilities funding such assets. As at 31 December 2018, 27 per cent. of gross loans of the OTP Group and 25 per cent. of deposits of the OTP Group were in foreign currencies. As a result of the financial crisis, several countries in which members of the OTP Group operate practically prohibit retail foreign currency borrowing. However, the corporate sector in several countries in which members of the OTP Group operate still maintains a certain degree of foreign exchange rate risk.

The credit risk of the Issuer and other OTP Group members' foreign currency-based transactions is increased by the fact that the typical currency of income from customers may be different from the currency of collateral sales.

In addition, the Issuer and the OTP Group may become subject to governmental interventions and measures in the markets where they operate that aim to alleviate the effects of increased delinquency rates on foreign currency denominated loans granted to borrowers without matching foreign currency income as a result of the significant foreign exchange rate volatility in recent periods.

Foreign exchange rate fluctuations between the HUF and the local currencies of the countries where the OTP Group operates may have an adverse effect on the consolidated balance sheet positions of the OTP Group and, in the longer term, on its consolidated financial results, which are stated in its functional currency, the HUF. The financial statements of the OTP Group's subsidiaries located in the CEE region, Russia and Ukraine are stated in their respective local currencies and their financial results are converted into HUF for consolidation purposes.

Furthermore, because some of the OTP Group's consolidated risk-weighted assets, against which the OTP Group is required to hold a minimum level of capital, are denominated in local currencies, any significant depreciation of the currency in which such capital charges are denominated as against these local currencies may have a negative impact on the capital adequacy ratio of the Issuer and the OTP Group.

The OTP Group is subject to the risk that the value of its assets could be impaired by market risks

Fluctuations in debt and equity markets or changes in trading parameters influencing market prices (including, *inter alia*, interest rates, credit spreads, bond prices, other securities and commodities prices, derivatives prices, prices of other marketable assets, indirect indicators such as implied volatility of, and correlations between, the foregoing and general financial markets liquidity risks (e.g. the possibility of obtaining requisite funding or selling assets)) may affect the market value and liquidity of the Issuer and the OTP Group's assets. Changes in interest rate levels, yield curves and spreads may affect the Issuer and certain OTP Group members' net interest margin.

Furthermore, the value of the real estate investments of the OTP Group mortgage loan assets secured by real estate property is in particular exposed to price changes in the real estate markets. As at 31 December 2018, 30 per cent. of the OTP Group's consolidated net loan book related to mortgage loan assets. Whilst real estate prices have increased in 2017/2018, both in terms of commercial and residential real estate prices, this increase has principally been concentrated in Budapest. Therefore, there remains a risk, in relation to real estate property outside of Budapest, that the value of such properties is insufficient to secure the value of the mortgage loan assets.

Further uncertainty in the housing market has arisen as a result of double digit wage increases in Budapest, leading to a perception that housing is becoming overpriced (fuelled by investment purposes from abroad, but also locally) and the affordability is becoming a perceived issue.

The investment banking activities, revenues from trading operations (whether for its own account or for the account of its customers), asset-liability management activities and hedging strategies of the OTP Group (or the availability of such hedging strategies) may also be adversely affected by market volatility.

Sustained market downturns may lead to a decline in the volume of capital market transactions that the OTP Group executes for its customers and, therefore, a decrease in the revenues from commissions and spreads earned from such trades. Furthermore, the fair value of financial instruments held by the OTP Group, including bonds (government, corporate and bank bonds), equity investments, cash in various foreign currencies, investments in private equity, hedge, credit and other investment funds, commodities and derivatives are also subject to the volatility of, and correlations between, market prices and trading parameters. To the extent that volatile market conditions persist or recur, the fair value of the OTP Group's bond, derivative and structured credit portfolios, as well as other classes, could fall more than estimated, and therefore cause the OTP Group to record write-downs.

It is difficult to predict with accuracy any changes which may occur in economic or market conditions and to anticipate the effects that such changes could have on the Issuer and the OTP Group's financial performance and business operations. These developments may lead to material losses if the Issuer or members of the OTP Group cannot close out deteriorating positions. Monitoring the deterioration in the value of positions taken may, at the same time, be particularly difficult in the case of assets which are not traded on stock exchanges or on organised OTC markets, such as certain derivative contracts between banks, and whose value is calculated by using financial models, rather than on the basis of publicly quoted prices.

Adverse market movements and/or a failure to identify and adequately manage any of the foregoing risks may have a negative impact on the OTP Group's businesses, financial condition and results of operations, and thus on the Issuer's ability to service its respective payment obligations under the Notes.

The OTP Group is subject to fluctuations in the market value of its security interests

The fair market value of real estate which is mortgaged as security for loans, particularly in the real estate financing business, is subject to significant fluctuations over the course of time, caused in particular by changes in supply and demand, construction deficiencies and delays, land contamination and environmental hazards, leasing status (vacancies) or potential buyers and their financial resources, changes in the general legal framework such as tax treatment, and other factors that are beyond the control of the Issuer (such as natural disasters and terrorist attacks). Such market developments and changes may in particular reduce the value of real estate collateral.

Furthermore, a continued decline in economic conditions in the markets where the OTP Group operates, an economic downturn in any industries in which borrowers of the OTP Group operate, or in markets where the real estate security is located, or a deterioration of the financial standing of the OTP Group's borrowers may result in decreases in the value of such security below the principal balance outstanding on the relevant mortgage loans. A decline in the value of security taken by the Issuer or any member of the OTP Group, or the inability to obtain additional security may require the relevant member of the OTP Group (both at the level of the OTP Group's individual members and on a consolidated basis) to reclassify the relevant loans, set aside additional provisions for loan losses and could result in increased reserve and/or capital requirements.

Real estate properties in which a security interest has been taken by the Issuer and other members of the OTP Group may be concentrated in certain locations. As at 31 December 2018, approximately 35 per cent. of the OTP Group's mortgage loan book is located in Budapest. To the extent that specific geographic regions have experienced or may experience a decline in the future economic conditions and residential or, as the case may be, commercial real estate markets that are weaker than in other regions, the concentration of mortgage loans secured by residential or, as the case may be, commercial real estate properties in such areas may result in a greater risk of borrower default or arrears on mortgage loans than if such concentration were not present.

No assurance can be given that the values of the relevant mortgaged real estate properties will not decline or, since origination, have not declined and it cannot be excluded that the Issuer and the other members of the OTP Group may have to increase their loan loss provisions in the future, for example if the market values of the underlying mortgaged real estate decreases, which in turn may be detrimental to the interest revenues and profitability of the Issuer and the other members of the OTP Group.

Any failure to recover the expected value of real estate security taken by the Issuer, or other members of the OTP Group in the case of foreclosure may expose the Issuer and the other members of the OTP Group to losses, which may have a material adverse effect on the Issuer and the other members of the OTP Group's businesses, financial condition and results of operations.

In addition, the Issuer and certain members of the OTP Group permit their clients in certain transactions to purchase securities on margin, in other words, to borrow a proportion of the purchase price from the Issuer or the relevant member of the OTP Group and to provide collateral for such credit with a set percentage of the securities purchased. During declines in securities prices, the value of the collateral securing margin purchases may fall significantly below the amount of these clients' indebtedness. The inability of such clients to provide additional collateral may expose the Issuer or the relevant member of the OTP Group to significant losses on these margin transactions.

Please see the section of this Prospectus headed "*Description of OTP Group's Business*" for further details relating to the OTP Group's assets.

The OTP Group is exposed to the risks associated with its approach to handling its non-performing loan portfolio

Rather than selling its non-performing loans at distressed prices on a large scale, as is more commonly the practice among the OTP Group's competitors, part of OTP Group's strategy has involved seeking to recover such non-performing loans by handling the process and management of non-performing loans in-house, as in management's belief it can create value for shareholders whilst also maintaining relationships with its relevant customers. In 1998, the Issuer established OTP Factoring Ltd ("**OTP Factoring**") in Hungary and it has since become the entity responsible for managing collection activity across the OTP Group. By the end of 2011, seven foreign factoring companies had been established within the OTP Group in Bulgaria, Croatia, Montenegro, Romania, Serbia, Slovakia and Ukraine.

This in-house approach has resulted in higher non-performing loan levels within the OTP Group as compared to the approach of selling non-performing loans to a third-party.

The OTP Group is subject to the risk that it is unable to maintain the past levels of recoveries on such non-performing loans which may impact its profits.

Please see the section of this Prospectus headed "*Description of OTP Group's Business*" for further details regarding OTP Factoring and the OTP Group's non-performing loan portfolio.

The OTP Group may be unable to raise new capital

The OTP Group's strategy is based on, among other things, certain financial expectations, including its ability to raise new capital and/or debt. Several factors, including the perceived creditworthiness of the OTP Group (including any credit ratings assigned to the Issuer or any of its debt obligations) as well as adverse macroeconomic conditions, significant or unexpected changes in the regulation of the banking sector in Hungary and the CEE region, and loss of confidence by investors, counterparties and/or customers in the OTP Group, may affect the ability of the OTP Group to access the capital markets and/or the cost and other terms upon which the OTP Group is able to obtain market funding.

The OTP Group's profitability is subject to its customers' demands to prepay

The volatility of interest rates and foreign exchange rates will increase demands for prepayment among the Issuer's customers, which could adversely affect the Issuer's profitability.

Prepayment risk means an increasingly significant exposure for the Issuer, especially due to the legislative provisions applicable to mortgage loans, which are granted to consumers. Pursuant to the Hungarian Consumer Credit Act, consumer borrowers are entitled at any time to discharge, in whole or in part, their obligations under their credit agreements, including mortgage-backed loans. Further, the provisions of the Consumer Credit Act impose limitations on the right of credit institutions to recover their losses and costs incurred as a consequence of a prepayment by consumer borrowers. This in turn requires more stringent asset-liability management, further increasing the cost of funding for the Issuer.

Any legislative measures that may facilitate prepayments and/or early repayments by borrowers or impose further restrictions on the Issuer and the OTP Group's ability to recoup possible losses from such prepayments and/or early repayments, such as an early repayment scheme for certain foreign currency denominated loans, may have an adverse effect on the businesses, financial condition and results of operations of the relevant member of the OTP Group.

The OTP Group's faces risks associated with the implementation of its business strategy

The OTP Group intends to continue to explore and pursue opportunities to strengthen and grow its business generally. This includes the implementation of its digital transformation strategy.

The success of the OTP Group's business, financial condition, results of operations, in general depends, in part, on the success of new products and services offered to clients, including the shift to digitalisation pursuant to the OTP Group's implementation of its digital transformation strategy. The OTP Group's success is also dependent on its ability to anticipate and leverage new and existing technologies that may have an impact on products and services in the banking industry. Technological changes may further intensify and complicate the competitive landscape and influence client behaviour. If the OTP Group's products and services employ technology that is not as attractive to clients as that employed by its competitors, if it fails to employ technologies desired by clients before its competitors do so, such as digitalisation, or if it fails to execute targeted strategic technology initiatives on time or on budget, its business, financial condition and results of operations could be adversely affected. In addition, if the OTP Group cannot respond in a timely fashion to the changing needs of its clients, it may lose clients, which could in turn materially adversely affect its financial condition and results of operations.

Accordingly, if the Group's strategies are not implemented successfully, or if the Group's strategies do not yield the anticipated benefits or lead to unforeseen liabilities, or if the Group is unable to successfully launch new products or services, improve offerings or pursue other business opportunities in time or at all, this could have a material adverse effect on the Group's business, financial condition and results of operations.

The OTP Group is subject to risks of impairment of goodwill

The OTP Group regularly performs impairment tests on goodwill and other intangible assets at least once a year or whenever there are indications of a decrease in the value of goodwill or other intangible assets. The outcome of any impairment test model depends, *inter alia*, on key input data on macroeconomic factors and long-term growth assumptions. Should the economic conditions worsen either in any of the markets where the OTP Group operates or in general, an impairment charge or a write-down may need to be recognised with respect to goodwill of the members of the OTP Group, which may have a material adverse effect on the OTP Group's financial condition and results of operations.

The OTP Group may be adversely affected by the suspension, downgrading or withdrawal of the Issuer’s credit rating

An issuer credit rating is the opinion of a rating agency on the credit standing of an issuer, for example, a forecast or an indicator of a possible credit loss due to insolvency, delay in payment or incomplete payment to the investors. The decision by a rating agency to suspend, downgrade, put on negative watch or withdraw a rating which relates to the Issuer may lead to a restriction of the Issuer’s access to funds and, consequently, to higher refinancing costs.

Such negative changes in the ratings of the Issuer or certain other members of the OTP Group may result in higher costs for interbank market transactions or limit access to interbank markets generally and could also lead to withdrawals of deposits. Such negative changes may also result in, *inter alia*, a requirement for them to provide further collateral under existing collateral arrangements for derivative transactions, which may, in turn, require additional liquidity. Furthermore, downgrades of the ratings of the Issuer or certain other members of the OTP Group may have a negative effect on their ability to access the liquidity facilities or refinancing lines of the European Central Bank (“ECB”), the MNB and/or other central banks in the countries where the OTP Group operates, in particular, if such downgrades are coupled with the introduction of more restrictive eligibility criteria for collateral that can be used for such liquidity facilities or refinancing lines.

All these may, in turn, have a negative effect on the OTP Group’s businesses, financial condition and results of operations.

The OTP Group may be adversely affected by the failure of other financial institutions which could result in systemic liquidity problems

Financial institutions have a high level of interdependence as a result of credit, trading, clearing and other relationships between them. Therefore, the Issuer and other members of the OTP Group may be exposed to “systemic risk”. A systemic risk event refers to the possibility of the failure of one institution having a knock-on effect on the banking system as a whole, leading to liquidity problems or losses or defaults on the part of other institutions. Concerns about, or a default by, one institution may lead to significant liquidity problems for, or losses or defaults by, other institutions as the soundness of many financial institutions may be closely related as a result of credit, payment (settlement and clearing), or other relationships between them.

Systemic risk in the global financial industry is still at an elevated level and, therefore, the OTP Group is subject to the risk of deterioration of the commercial weakness or perceived weakness of other financial institutions, particularly within the countries in which the OTP Group operates. These risks could have a material adverse effect on the OTP Group’s business, financial condition and results of operations.

The OTP Group and its business could be adversely affected by the United Kingdom’s anticipated withdrawal from the EU

On 23 June 2016, a majority of United Kingdom voters voted in favour of the United Kingdom’s exit from the European Union (commonly referred to as “Brexit”) in a national referendum, and on 29 March 2017, the UK government triggered Article 50 of the Treaty on European Union, which initiated the withdrawal procedure pursuant to which the United Kingdom is currently due to exit the EU by no later than 31 October 2019. Brexit has created political, social and macroeconomic uncertainty for Europe. Brexit has also created volatility in the global financial markets and could contribute to prolonged uncertainty around certain aspects of the European and global economies as well as European companies and consumers. Brexit is likely to continue to adversely affect European and worldwide economic conditions and could contribute to greater instability in the global financial markets before and after the terms of the United Kingdom’s future relationship with the European Union are settled. As a consequence of Brexit, there is a risk of contagion such that other member states, including those in which the OTP Group operates, enter into (or continue with) political discussions on their

potential withdrawal from the EU. Separately, the negotiations for those countries, some of in which the OTP Group operates, seeking to accede to the EU as at the date of the Prospectus may be delayed or completely stop.

Until more clarity is available around the legal, political and economic realities and requirements for having the United Kingdom leave the European Union, political and economic uncertainty, notably in European markets, may occur, which could lead to a downturn in the markets in which the OTP Group operates and a decrease in spending and investment. Additionally, this uncertainty can lead to an increase in costs for us due to legal and regulatory changes as well as currency exchange rate fluctuations between the Euro, the USD and the HUF. These effects could have an adverse effect on the Issuer's business, investments and potential growth into Europe. These factors could increase the Issuer's operation costs, delay capital expenditure programs, or place additional regulatory burdens on it that could have a material adverse effect on its business, financial condition and results of operations. Furthermore, as a result of this uncertainty, financial markets could experience significant volatility, which could adversely affect the Issuer's business, financial condition and results of operations.

Risks related to the operational and competitive environment

The OTP Group is exposed to the failure or malfunctioning of their information technology systems

The Issuer and the OTP Group's activities is dependent on highly sophisticated information technology ("IT") systems. IT systems are vulnerable to a number of problems, such as computer virus infection, malicious hacking, physical damage to vital IT centres and software or hardware malfunctions. The Issuer cannot provide assurances that such failures or interruptions will not occur or, if they do occur, they will be adequately addressed. The occurrence of any failures or interruptions could result in a loss of customer data and an inability to service the Issuer's customers, which could have a material adverse effect on the Issuer and the OTP Group's reputation, financial condition and results of operations.

In addition, the Issuer and the OTP Group's operations rely on the secure processing, storage and transmission of confidential and other information in their computer systems and networks. Although the Issuer and the OTP Group take protective measures and endeavour to modify them as circumstances warrant, their computer systems, software and networks may be vulnerable to unauthorised access and other events that could have a security impact. Given the high volume of transactions of the Issuer and the OTP Group, certain errors may be repeated or compounded before they are discovered and rectified. If one or more of such events occurs, this could potentially jeopardise the Issuer's, the OTP Group's, their clients', counterparties' or third parties' confidential and other information processed and stored in, and transmitted through, the Issuer and the OTP Group's computer systems and networks, or otherwise cause interruptions or malfunctions in the Issuer's and the OTP Group's, their clients', counterparties' or third parties' operations, which could result in significant losses or reputational damage.

The OTP Group is subject to the risk that its risk management controls may not be effective

The OTP Group has implemented comprehensive risk management strategies and systems aimed at adequately identifying and measuring the risks they face, such as the incidence of loan losses or delinquency, and at mitigating those risks. Although the Issuer and the OTP Group invest substantial time and effort in their risk management strategies and systems, such procedures may nonetheless fail under some circumstances, particularly when confronted with risks that are not identified or anticipated.

Furthermore, the methods and models applied by the OTP Group for risk measurement and control only model reality and cannot, therefore, guarantee with any certainty that each and every risk in every circumstance will be identified, hedged and controlled. Any failure of the risk management system and strategies of the OTP Group may lead to unexpected losses from unidentified or incorrectly evaluated market developments, trends or other circumstances. In particular, an increase in financial market volatility or adverse changes in the liquidity

of its assets could impair the OTP Group's ability to value certain of its assets and exposures or result in significant changes in the fair value of these assets and exposures, which may be materially different from the current or estimated fair value. Any of these factors could require the OTP Group to recognise write-downs or realise impairment charges, any of which may adversely affect its financial condition and results of operations. Failure to manage such risks may affect the Issuer's ability to fulfil its obligations under the Notes.

The OTP Group's information systems and networks are vulnerable to privacy or data protection failures and cyber security risks

The OTP Group is subject to regulation regarding the processing (including disclosure and use) of personal data. The OTP Group processes significant volumes of personal data relating to customers as part of its business, some of which may also be classified under legislation as sensitive personal data. The OTP Group must therefore comply with strict data protection and privacy laws and regulations.

The OTP Group also faces the risk of a breach in the security of its IT systems, for example from increasingly sophisticated attacks by cybercrime groups with criminal or malicious intent, including attacks designed to overload the OTP Group's systems. These risks are accentuated as the OTP Group increasingly digitalises its products, services, key functions and distribution channels and as cyber-attacks become more sophisticated and prevalent. The OTP Group is subject to the risk that any cyber-attack may result in data breaches and/or a temporary loss of operational availability of the OTP Group's systems to its employees and/or customers which could have a material adverse effect on the OTP Group's business, financial conditions, reputation and operating results.

There is a risk that the OTP Group may not continue to invest sufficiently in its information security controls in response to emerging threats, such as cybercrime and fraud, and to seek to ensure that controls for known threats remain robust. The risks associated with cyber-attacks, where an individual or group seeks to exploit vulnerabilities in IT systems for financial gain or to disrupt services, are a material risk to the OTP Group.

The OTP Group seeks to mitigate such risks, including by ensuring that systems and procedures are in place to ensure compliance with relevant regulations. There can, however, be no assurance that such security measures will be effective.

The OTP Group is subject to rising operating costs as a result of wage inflation and digitisation

As a result of, in particular, wage inflation and costs relating to ongoing digital transformation, the OTP Group is subject to rising operational costs.

Wage inflation in Hungary averaged 10 per cent. during 2018. However, it is expected to decrease in 2019 to a certain degree. As a result, the Issuer still expects to incur relatively high operating costs in 2019.

Any increase in operating costs may have a negative impact on the OTP Group's businesses, financial condition and results of operations, and thus on the Issuer's ability to service its respective payment obligations under the Notes.

The OTP Group is subject to risks associated with human resources

The Issuer and the OTP Group are exposed to personnel risks, in particular, qualification, fluctuation, availability and motivation risks. The Issuer and the OTP Group's current senior management team includes a number of executives who the Issuer believe contribute significant experience and expertise to their management in the banking sectors in which the Issuer operates. The continued success of the Issuer and the OTP Group's businesses and the Issuer's ability to execute its business strategy will depend, in large part, on the efforts of their senior management. Compensation is a key element of retaining highly qualified employees. At the same time, EU and Hungarian legislation imposes significant restrictions as to the remuneration policies that may be applied by credit institutions (such as the Issuer and other bank members of the OTP Group)

including, *inter alia*, the requirement that remuneration policies be consistent with, and promote, sound and effective risk management, do not encourage risk-taking that exceeds the level of tolerated risk in respect of the relevant credit institution and distinguish between basic fixed remuneration and variable (or performance-based) remuneration. If a substantial portion of the Issuer and the OTP Group's senior management leaves the Issuer or the OTP Group, their business may be materially adversely affected.

The OTP Group operates in markets where competition is high and this may increase significantly in the future

The Issuer and other members of the OTP Group is subject to intense competition which is expected to increase further in the future with the implementation of the European single market in the financial services sector. Apart from local competitors, other international banks may enter the banking market in the CEE region, Russia and Ukraine, thus increasing the pressure on profit margins of the Issuer and the OTP Group.

There can be no assurance that the Issuer and the other members of the OTP Group can maintain their competitive position. If the OTP Group is unable to provide competitive products and/or services, it may fail to attract new customers and/or retain existing customers, experience decreases in its interest, fee and other income and/or lose market share, the occurrence of which may have a material adverse effect on the business, financial condition and results of operations of the Issuer and the OTP Group.

Risks related to the legal and regulatory environment

The OTP Group is subject to changes to government policy and regulation

The businesses and earnings of the Issuer and the other members of the OTP Group may be affected by measures of legislative bodies and the fiscal or other policies and other actions of various governmental and regulatory authorities in the countries in which the Issuer and the OTP Group operate.

Such changes may impact the corporate structures, businesses, strategies, capital, liquidity, funding and profitability and the cost structures of the OTP Group.

Although the members of the OTP Group work closely with their regulators and continuously monitor the situation, future changes in regulation, fiscal or other policies can be unpredictable and are beyond the control of the Issuer.

The Issuer and certain members of the OTP Group are also subject to financial services laws, regulations and banking supervision. If any violation of such regulations is detected, this may lead to higher scrutiny by the supervising authority and therefore to an increase in administrative expenses. Further, should orders or fines imposed on the Issuer and certain members of the OTP Group by supervisory authorities become public, this may lead to a loss of confidence among clients and business partners which may also have a negative effect on the Issuer and the OTP Group's businesses, financial condition and results of operations.

Regulatory risk faced by the OTP Group is further increased by the fact that some operations of the OTP Group are carried out in non-EU countries whose financial and banking laws are not harmonised with the relevant EU legislation as implemented in the EU member states, which may give rise to significant differences or, in certain circumstances, conflicts between EU financial and banking laws (including their application and interpretation) and the laws of the relevant countries outside the EU. All this, in turn, creates uncertainty and may have a negative impact on the ability of the OTP Group to harmonise, and monitor the implementation of, its compliance policies and/or lead to increased compliance costs.

Separately, the ability of the OTP Group to generate profit from its fund management subsidiary is subject to changes in regulations in the countries where it operates. This generally depends on the aggregate amount of assets under management and the level of management fees that may be charged for fund management by the

OTP Group. Any governmental, legislative or regulatory measure that affects the amount of assets under management or imposes restrictions on the level of such fees may have an adverse effect on the profitability of the OTP Group's fund management business.

With regard to the pension fund management business, no assurance can be given that governments or legislative bodies in countries where the OTP Group operates will not adopt measures adversely affecting the profitability of the private pension fund management business.

Any of the foregoing may have an adverse effect on the OTP Group's businesses, financial condition and results of operations.

The OTP Group is subject to government actions intended to alleviate the effects of a financial crisis

In response to the severe market conditions arising from the global financial crisis since 2007, central banks and governments throughout the world have adopted several measures aimed at increasing liquidity in, and promoting the stability of, the financial markets. In particular, numerous governments in the EU have provided additional capital and funding facilities to financial institutions and are implementing other measures including increased regulatory oversight and administrative restrictions as well as additional capital requirements.

Such measures partially lead to increased government ownership of, and control over, financial institutions, disparate competitive positions and further consolidation in the banking sector. Furthermore, a direct or indirect governmental acquisition of ownership in, or control over, financial institutions may result in interference with the business and commercial operations of the relevant financial institutions, which may include the imposition on such financial institutions (whether in the form of legislative measures, direct orders or guidance) of commercial, business, financial and transactional strategies and policies or the requirement to take up certain activities, which may be based (wholly or partially) on political or fiscal rather than rational, commercial or market-based considerations. No assurance can be given, for example, that the Hungarian Government will not acquire directly or indirectly (whether by contractual arrangements, operation of law, on the open market or otherwise) an ownership interest in, or control over, the Issuer or, if it does so, it will not interfere with the business and operations of the OTP Group.

Should any of the foregoing measures materialise in the markets where the Issuer and the OTP Group operate, this could have a negative impact on the Issuer's and the OTP Group's businesses, financial condition and results of operations.

The OTP Group is exposed to changes in the mandatory deposit guarantee and investor compensation schemes

With effect from 1 January 2011, the guarantee provided by the National Deposit Insurance Fund ("*Országos Betétbiztosítási Alap*") (the "**Fund**") on so-called "registered" ("*névre szóló*") bank account deposits (as defined in the Hungarian Credit Institutions Act) placed with the domestic credit institutions (being members of the Fund) was extended to an aggregate amount of €100,000 per depositor. This is in line with the requirements of Directive 2014/49/EU of the European Parliament and of the Council on deposit guarantee schemes. Such directive requires, *inter alia*, faster payouts and additional ex-post contributions by credit institutions under mandatory deposit guarantee schemes. On this basis, from 1 January 2021 the deadline for a payout from the Fund will be reduced from the currently applicable 15 days to 10 days.

Any future changes in the laws governing the Fund could increase the OTP Group's membership costs or, if they are perceived as adverse by the OTP Group's customers, could expose the Issuer to the risk of losing customers to competitors which could adversely affect the OTP Group's businesses or reputation. For the avoidance of doubt, investors in the Notes should be aware that the Notes are not covered by the Fund.

Loss absorption at the point of non-viability of the Issuer and resolution

The establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms is regulated by Directive 2014/59/EU of the European Parliament and of the Council (the “**BRRD**”). The aim of the BRRD is to provide relevant authorities with common tools and powers to address banking crises pre-emptively in order to safeguard financial stability and minimise taxpayers’ exposure to losses. The BRRD was implemented in Hungary by Act XXXVII of 2014 on the further development of the institutional system strengthening the security of certain participants of the financial intermediation system (the “**Resolution Act**”).

The powers provided to resolution authorities in the Resolution Act include write down powers to ensure relevant capital instruments fully absorb losses at the point of non-viability of the issuing institution. Accordingly, the Resolution Act contemplates that resolution authorities will be required to write down such capital instruments in full on a permanent basis, or convert them in full into common equity tier 1 instruments, at the point of non-viability of the Issuer or the OTP Group and before a resolution action is taken (“**Non-Viability Loss Absorption**”), including the bail-in tool described below. The Resolution Act provides, *inter alia*, that resolution authorities shall exercise the write down power in relation to Non-Viability Loss Absorption in a way that results in (i) common equity tier 1 instruments being written down first in proportion to the relevant losses and (ii) thereafter, the principal amount of relevant capital instruments (including the Notes) being reduced to zero on a permanent basis.

For the purposes of Non-Viability Loss Absorption, the point of non-viability under the Resolution Act is the point at which (i) the Resolution Authority (as defined in the Conditions) determines that the institution meets the conditions for resolution, (ii) the Resolution Authority determines that the institution or its group will no longer be viable unless the relevant capital instruments are written down or (iii) extraordinary public support is to be provided by Hungary and without such support the appropriate authority determines that the institution or its group would no longer be viable.

An additional bail-in tool, which comprises a more general power for the Resolution Authority to write down the claims of unsecured creditors of a failing institution and to convert unsecured debt claims (including those of the Noteholders) into equity, is also available under the Resolution Act. This bail-in tool provides the Resolution Authority with broad powers, including the power to cancel a bank’s existing shares or severely dilute existing shareholdings, including with respect to any shares issued or conferred upon conversion of capital instruments to common equity tier 1 instruments pursuant to Non-Viability Loss Absorption. The Resolution Act provides that a write down resulting from the use of the bail-in tool would, in summary, follow the ordinary allocation of losses and ranking in an insolvency of the relevant institution.

In addition to Non-Viability Loss Absorption, the Resolution Act provides resolution authorities with broader powers to implement other resolution measures with respect to distressed banks, which may include (without limitation) the replacement or substitution of the bank as obligor in respect of debt instruments, modifications to the terms of debt instruments (including altering the maturity and/or the amount of interest payable and/or imposing a temporary suspension on payments) and discontinuing the listing and admission to trading of financial instruments (including, in each case, the Notes).

If the Resolution Authority, were to exercise such powers in respect of the Issuer, then existing shareholders and/or subordinated debt holders, including holders of the Notes, may experience dilution of, or losses on, their holdings and may not receive any compensation for their losses. In addition, in a resolution situation, financial public support will only be available to the Issuer as a last resort after the resolution authorities have assessed and exploited, to the maximum extent practicable, the resolution tools, including the bail-in tool. Given that the purpose of resolution tools is to minimise any reliance on financial public support, there can be no assurance

that any such financial public support will be forthcoming. However, see also the risk factor titled “*The OTP Group is subject to government actions intended to alleviate the effects of a financial crisis*” above.

The Resolution Act, in line with the BRRD, empowers the Resolution Authority to require credit institutions to have sufficient amount and quality own funds, which in case of emergency can be partially or entirely subject to bail-in or conversion measures. The relevant powers of the MNB are specified in Commission Delegated Regulation (EU) 2016/1450 (the “**MREL Regulation**”) supplementing the BRRD with regard to regulatory technical standards specifying the criteria relating to the methodology for setting the minimum requirement for own funds and eligible liabilities (known as “**MREL**”). Further requirements are specified by the policies of the Single Resolution Board and the MNB.

The Issuer intends to apply the proceeds of the Notes, amongst other things, towards establishing own funds which satisfy the requirements of the MREL Regulation. There is no assurance that the MREL Regulation will not be changed or the regulator’s policies will not be tightened in the future which may consequently have an adverse effect on the business, financial condition and results of operations of the Issuer and the OTP Group.

In addition, the European Commission has proposed reforms to BRRD in order to, amongst other things, implement in the EU the Financial Stability Board’s total loss absorbing capacity standard (“**TLAC**”) by adapting the existing regime relating to MREL (“**BRRD II**”). BRRD II was published in the Official Journal of the European Union on 7 June 2019, with entry into force 20 days following that publication. BRRD II must be transposed into national law no later than 28 December 2020 with national regulators having until 1 January 2024 at the latest to impose full MREL requirements on firms.

Please see the risk factor titled “*The OTP Group is exposed to increasing capital adequacy requirements*” below for further details relating to the risks associated with the implementation of CRR II.

The OTP Group will be required to maintain a minimum requirement for own funds and eligible liabilities

To support the effectiveness of bail-in and other resolution tools, the BRRD requires that all institutions must meet the MREL which may be bailed-in, calculated as a percentage of total liabilities and own funds and set by the relevant resolution authorities. Items eligible for inclusion in MREL will include an institution’s own funds, along with “eligible liabilities”.

As at the date of this Prospectus, the MNB has not set a binding MREL target for the OTP Group and the precise calibration and ultimate designation of the OTP Group’s MREL has not yet been finalised. It is anticipated that, before the end of 2019, the MNB will set out its views and requirements in respect of the OTP Group’s MREL requirements. Following which it is the OTP Group’s intentions, as at the date of this Prospectus, to implement such MREL requirements in the most appropriate manner for the business. As part of such implementation process, it is likely that, amongst other options, the Issuer may consider issuing further MREL eligible debt (including further Tier 2 debt). The Issuer may access the capital markets with further regulatory capital and MREL issuances with increasing frequency in the coming months and years. However, it is difficult to predict the full effect MREL may have on the OTP Group until the MNB has set OTP Group’s MREL target.

A partial transfer of the Issuer’s business may result in a deterioration of its creditworthiness

Pursuant to the Hungarian Credit Institutions Act, Hungarian banks may transfer their client contract asset portfolios with the permission of the MNB. Without prejudice to the provisions on capital requirements, banks otherwise may freely transfer any of their other assets. Depending on the nature and value of such assets which are transferred, the creditworthiness of the Issuer may deteriorate.

The OTP Group is exposed to increasing capital adequacy requirements

Should new global capital standards be implemented in the jurisdictions where the Issuer and the OTP Group operate, this may result in more stringent capital requirements or, as the case may be, the need for additional capital injections into the Issuer or other members of the OTP Group that could constrain the financial condition and results of operations of the Issuer and the OTP Group.

In particular, amendments to the Capital Requirements Directive and the Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, as amended (“CRR”) (known collectively as “CRD V” and “CRR II”) will bring a new approach for the measurement of counterparty credit risk, the implementation of the Net Stable Funding Ratio, a changed framework for interest rate risk and changes to the treatment of trading book exposures, in addition to other amendments relating to capital, liquidity, leverage, remuneration and the EU’s recovery and resolution framework. CRD V and CRR II were published in the Official Journal of the European Union on 7 June 2019, with entry into force 20 days later. Most of the provisions of CRD V are required to be transposed into national law by 28 December 2020, with application immediately thereafter. CRR II will apply from 28 June 2021 (subject to certain earlier applications and exemptions, such as those relating to the transitional arrangements for IFRS 9 and the characteristics of new regulatory capital instruments).

To the extent certain of these measures are implemented as currently proposed or announced they could have a significant impact on the capital and asset-liability management of the OTP Group.

On 7 December 2017, the Basel Committee on Banking Supervision published the final instalments of its Basel III reforms (sometimes referred to as Basel IV). These are intended to enhance risk sensitivity and robustness of standardised approaches, clarify the role of internal models in the capital framework and to implement changes to the design and calibration of the leverage ratio and capital floors. As such, the final Basel III reforms package includes changes to the standardised approach to credit risk and new capital floor requirements. The majority of these reforms are required to be implemented by January 2022. However, the output floor has a 5 year transitional period to 2027.

Such changes in the regulatory framework and in the way such regulations are applied may have a material effect on the OTP Group’s business, financial condition and results of operations, however the implementation of Basel IV requirements is expected imply a single digit growth of OTP Group’s consolidated risk weighted assets. The implementation of these changes may also prevent the OTP Group from continuing current lines of operations, restrict the types or volume of transactions the OTP Group may execute, limit the payment of dividends by the members of the OTP Group or set limits on, or require the modification of, rates or fees that the OTP Group charges on loans or other financial products. As the new framework for the financial and banking laws and regulations affecting the OTP Group is currently being implemented, the manner in which those laws and related regulations will be applied to the operations of financial institutions is still evolving. No assurance can be given that such laws and regulations will be adopted, enforced or interpreted in a manner that will not have an adverse effect on the business, financial condition, cash flows and results of operations of the OTP Group. The OTP Group may also face a substantial increase in compliance costs and potential material limitations on its ability to pursue business activities.

The OTP Group is exposed to litigation risk

The Issuer and the OTP Group may from time to time be subject to litigation, whether of a substantive or vexatious nature. Such litigation, if not dismissed at an early stage or decided contrary to the best commercial interests of the Issuer or the OTP Group may have an adverse impact on the operations of the Issuer or the OTP Group. Furthermore, such cases may include claims or actions in which the petitioner or plaintiff has not specifically, or not in whole, quantified the penalties or damages sought. In these circumstances, it may, in

particular, be difficult to predict the outcome of a dispute and estimate possible losses in a reliable manner and, therefore, to set aside adequate provisions for such possible losses.

Please see the section of this Prospectus headed “*Description of OTP Group’s Business*” for further details relating to litigation.

The OTP Group is subject to changes to tax regulation

The Issuer and the OTP Group may, from time to time, be subject to special taxation obligations. For example, special tax obligations were levied by the Hungarian government on the financial sector in response to the financial crisis, and these have become a permanent burden on this sector in the past years. Likewise, the Slovakian and Romanian governments impose bank levies or taxes (as applicable).

No assurance can be given that governments or legislative bodies in other countries where the OTP Group operates will not impose similar or other special taxes on the financial sector, which may adversely affect the profitability of the OTP Group’s operations in such countries.

The Issuer and the OTP Group is exposed to tax risks associated with changes in tax rates or tax legislation or the incorrect interpretation of the rules and regulations in force. If tax risks are realised, this could lead to an increase in taxes or penalties which, in turn could cause financial losses for the Issuer and the OTP Group.

Changes in taxation regulations which increase the level of the tax payable by the Issuer or the relevant member of the OTP Group may affect the financial results of such entity and, consequently, could have a material adverse effect on the Issuer and the OTP Group’s businesses, financial condition and results of operations.

The OTP Group may be subject to changes in accounting standards

The accounting policies and methods of the Issuer and the OTP Group are fundamental to how they record and report their financial condition and results of operations.

In July 2014, the International Accounting Standards Board announced IFRS 9 on financial instruments which replaced IAS 39 and became effective for annual periods beginning on or after 1 January 2018. The OTP Group has elected to apply the EU transitional arrangements under CRD V for the implementation of IFRS 9 over a five-year basis. In Q1 2019 the positive impact of the transitional arrangement in regulatory capital is HUF 70.4 billion, which increases the capital adequacy ratio by approximately 65 basis points. The ratio applicable for the calculation of transitional arrangement gradually decreases: 85 per cent. in 2019, 70 per cent. in 2020, 50 per cent. in 2021, 25 per cent. in 2022 and 0 per cent. in 2023. Ultimately, this will impact OTP Group’s capital adequacy ratios.

On 1 January 2019, the IFRS 16 standard came into effect. OTP Group’s risk weighted assets for credit risk increased by 0.6 per cent. due to implementation of IFRS 16 in Q1 2019.

In addition, and from time to time, amendments are adopted to the applicable financial accounting and reporting standards that govern the preparation of the financial statements of the Issuer and the OTP Group. These changes are hard to predict but may materially impact how the Issuer and the members of the OTP Group record and report their financial condition and results of operations.

Any amendment to the IFRS which, in the future, may be adopted by the EU and which concerns the valuation of the balance sheet, off-balance sheet items, disclosures or creating write-downs and provisions, may have a negative impact on the presentations of the financial and economic situation of the OTP Group.

Changes in the EU transitional arrangements, business models or policies, including as a result of choices made by the OTP Group in relation to IFRS 9 could have a material adverse effect on the OTP Group’s reported results of operations and financial condition and may have a corresponding material adverse effect on capital ratios.

The OTP Group is exposed to conduct and reputational risks

Conduct risk corresponds to risks arising from the way in which the OTP Group and its employees conduct themselves and includes matters such as how customers are treated, organisational culture (in particular, the way in which the OTP Group's senior management affects the ethical conduct of employees), corporate governance, employee remuneration and conflicts of interest. The OTP Group is also required to comply with certain conduct-of-business rules and certain corporate governance rules issued by MNB and the Budapest Stock Exchange and any failure to comply with these rules could result in significant penalties or fines.

Any failure to identify, manage and control these conduct risks or correct any deficiencies could result in a material adverse effect on the OTP Group's reputation, business, financial condition and results of operations.

In addition, reputational risks may arise from past, present or potential failures in corporate governance or management practices that could lead to a misconduct event. The reputation of the OTP Group may also be impacted by any fraudulent activity as well as from negative media or press coverage. Failure to appropriately manage reputational risks may reduce, directly or indirectly, the attractiveness of the OTP Group to stakeholders, including depositors, borrowers and other customers, and may lead to negative publicity, loss of revenue, litigation, higher scrutiny and/or intervention from regulators, regulatory or legislative action, loss of existing or potential client business and difficulties in recruiting and retaining talent. Sustained damage arising from conduct and reputation risks could have a materially negative impact on the OTP Group's operations which could have a material negative impact on the OTP Group's businesses, financial condition and results of operation.

The OTP Group is exposed to the risk of fraud and illegal activities

The OTP Group is subject to rules and regulations related to money laundering, anti-bribery and terrorism financing. Compliance with anti-money laundering, anti-bribery and anti-terrorist financing rules entails significant cost and effort, including obtaining information from clients and other third parties. Non-compliance with these rules may have serious consequences, including adverse legal and reputational consequences. Although the OTP Group has anti-money laundering, anti-bribery and counter-terrorism financing policies and procedures which aim to ensure compliance with applicable legislation and strive for zero tolerance of any violations, it may not always be successful in identifying all instances of suspicious activity, fraud or human error and, therefore, may not be able to comply at all times with all rules applicable to money laundering, anti-bribery and terrorism financing as extended to the whole OTP Group and applied to its workers in all circumstances. As a general statement, a violation, or even any suspicion of a violation, of any of these rules may have serious legal and financial consequences, which could have a material adverse effect on the OTP Group's reputation, business, financial condition and results of operations.

The OTP Group is subject to compliance with economic sanctions programmes

The OTP Group's operations are subject to various anti-corruption laws and economic sanction programmes, including those administered by the United Nations, the UK and the EU, as well as those of the United States Department of Treasury's Office for Foreign Assets Control ("OFAC"). The anti-corruption laws generally prohibit providing anything of value for the purposes of obtaining or retaining business or securing any improper business advantage. As part of its business, the OTP Group may deal with entities whose employees are considered government officials. In addition, economic sanctions programmes restrict the OTP Group's business dealings with certain sanctioned countries, individuals and entities. In particular, the OTP Group is exposed to risks in relation to the EU's and OFAC's economic sanctions programme against Russia and Ukraine, and certain Russian and Ukrainian citizens and businesses. While the current sanctions regime directed at Russia has had no material impact on the OTP Group's operations in Russia, the Issuer cannot give assurance that this will remain the case in the future,

Although the OTP Group has internal policies and procedures and several monitoring measures designed to ensure compliance with applicable anti-corruption laws and sanctions regulations, these policies and procedures cannot provide complete assurance that the OTP Group's employees, directors, officers, partners, agents, service providers or introducers will not take actions in violation of its policies and procedures (or otherwise in violation of the relevant anti-corruption laws and sanctions regulations) for which the Issuer or they may be ultimately held responsible. Litigation or investigations relating to alleged or suspected violations of anti-corruption laws and sanctions regulations could lead to financial penalties being imposed on the OTP Group, limits being placed on the OTP Group's activities, the OTP Group's authorisations and licenses being revoked, damage to the OTP Group's reputation and other consequences that could have a material adverse effect on the OTP Group's business, financial condition and results of operations. Further, violations of anti-corruption laws and sanctions regulations could be costly.

Risks related to the structure of the Notes

An investor assumes an enhanced risk of loss in the event of the Issuer's insolvency

The Notes are unconditional, subordinated and unsecured obligations of the Issuer.

Article 63 of the CRR states that capital instruments and subordinated loans satisfying certain conditions (enumerated from (a) to (n)) will be considered subordinated Tier 2 capital for the purpose of the CRR.

The Issuer intends to use the proceeds of the Notes, amongst other things, as part of its Tier 2 capital and the Notes are intended to qualify as a Tier 2 instrument as specified in Article 63 of CRR. It cannot be excluded that on the basis of a future law (including any EU regulation substituting the CRR) or as a result of the interpretation of the laws by the National Bank of Hungary ("MNB") such qualification would need to be changed and thus result in reduced regulatory capital levels.

On 6 November 2006, the Issuer issued EUR 500,000,000 fixed to floating rate perpetual subordinated notes (ISIN: XS0274147296) (the "**2006 Notes**") and on 19 October 2006, the Issuer entered into a subordinated swap agreement with Opus Securities S.A. ("**Opus**") in connection with the EUR 514,274,000 income certificates (the "**ICES**") issued by Opus on 31 October 2006 (ISIN: XS0272723551) (the "**Opus Transaction**").

On the basis of a ruling of the MNB dated 21 May 2014, the 2006 Notes and the Opus Transaction are for the time being treated as Tier 2 instruments under the CRR. As set out in the Conditions, the Issuer and the Noteholders intend that the rights and claims of the Noteholders against the Issuer in respect of, or arising under, the Notes be in priority to the Issuer's obligations under the 2006 Notes and the Opus Transaction. However, it cannot be excluded that a liquidator (in the event of the liquidation/involuntary winding-up of the Issuer), or the Hungarian courts, as the case may be, may take the view that the 2006 Notes and the Opus Transaction should be treated as ranking equally with the Notes.

In the event of the liquidation (*felszámolás*) of the Issuer in accordance with Hungarian Act XLIX of 1991 on Bankruptcy and Liquidation Proceedings, the payment obligations of the Issuer under the Notes will rank in right of payment after unsubordinated unsecured creditors (including depositors) of the Issuer but at least *pari passu* with all other subordinated obligations of the Issuer which do not rank or are not expressed by their terms to rank junior to the Notes and in priority to the claims of shareholders of the Issuer. If, on a liquidation of the Issuer, the assets of the Issuer are insufficient to enable the Issuer to repay the claims of more senior-ranking creditors in full, the Noteholders will lose their entire investment in the Notes. If there are sufficient assets to enable the Issuer to pay the claims of senior-ranking creditors in full but insufficient assets to enable it to pay claims in respect of its obligations in respect of the Notes and all other claims that rank *pari passu* with the Notes, Noteholders will lose some (which may be substantially all) of their investment in the Notes.

For the avoidance of doubt, the Noteholders shall, in a liquidation of the Issuer, have no claim in respect of the surplus assets (if any) of the Issuer remaining in any liquidation following payment of all amounts due in respect of the liabilities of the Issuer.

Noteholders may not exercise any right of set-off, compensation or retention

Each Noteholder unconditionally and irrevocably waives any right of set-off, counterclaim, abatement or other similar remedy, which it might otherwise have, under the laws of any jurisdiction, in respect of such Note. Accordingly, and subject to applicable law, no Noteholder, who is indebted to the Issuer, shall be entitled to exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer in respect of, or arising under or in connection with the Notes.

The remedies available to Noteholders under the Notes are limited

Noteholders may not at any time demand repayment or redemption of their Notes, although in a Winding-Up the Noteholders will have a claim for an amount equal to the principal amount of the Notes plus any accrued interest.

The sole remedy in the event of any non-payment of principal or interest under the Notes, subject to certain conditions as described in Condition 8, is that a Noteholder may institute proceedings for the winding-up of the Issuer and/or prove for any payment obligations of the Issuer arising under the Notes in any Winding-Up or other insolvency proceedings in respect of such non-payment.

The remedies under the Notes are more limited than those typically available to the Issuer's unsubordinated creditors. For further details regarding the limited remedies of the Noteholders, see Condition 8.

There is no limit on the amount or type of further bonds or indebtedness that the Issuer may issue, incur or guarantee

There is no restriction on the amount of bonds or other liabilities that the Issuer may issue, incur or guarantee and which rank senior to, or *pari passu* with, the Notes. The issue or guaranteeing of any such bonds or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by Noteholders during a winding-up or liquidation or resolution of the Issuer and may limit the Issuer's ability to meet its obligations under the Notes. The Issuer may also issue, in the future, subordinated liabilities which rank senior to the Notes.

Please see the risk factor titled "*The OTP Group will be required to maintain a minimum requirement for own funds and eligible liabilities*" above for additional details regarding the possible incurrence of further indebtedness.

Noteholders may not require the redemption of the Notes prior to their maturity

The Notes mature on 15 July 2029. The Issuer is under no obligation to redeem the Notes at any time prior thereto and the Noteholders have no right to require the Issuer to redeem or purchase any Notes at any time. Any redemption of the Notes and any purchase of any Notes by the Issuer will be subject always to the prior approval of the Competent Authority and to compliance with prevailing Regulatory Capital Requirements, and the Noteholders may not be able to sell their Notes in the secondary market (if at all) at a price equal to or higher than the price at which they purchased their Notes. Accordingly, investors in the Notes should be prepared to hold their Notes for a significant period of time.

Early Redemption of Notes upon the occurrence of certain tax and regulatory events

Subject to the prior approval of the Competent Authority and to compliance with prevailing Regulatory Capital Requirements, the Issuer may, at its option, redeem all (but not some only) of the Notes at their principal amount plus interest accrued and unpaid from and including the immediately preceding Interest Payment Date up to but excluding the date fixed for redemption on the Reset Date, or, upon the occurrence of a Tax Event or a Capital Disqualification Event, at any time.

An optional redemption feature is likely to limit the market value of the Notes. During any period when the Issuer may elect to redeem the Notes, the market value of the Notes generally will not rise substantially above the price at which they can be redeemed. Further, during periods when there is an increased likelihood, or perceived increased likelihood, that the Notes will be redeemed early, the market value of the Notes may be adversely affected.

If the Issuer redeems the Notes in any of the circumstances mentioned above, there is a risk that the Notes may be redeemed at times when the redemption proceeds are less than the current market value of the Notes or when prevailing interest rates may be relatively low, in which latter case Noteholders may only be able to reinvest the redemption proceeds in securities with a lower yield. Potential investors should consider reinvestment risk in light of other investments available at that time.

It is not possible to predict whether the events referred to above will occur and lead to circumstances in which the Issuer may elect to redeem the Notes, and if so whether or not the Issuer will satisfy the conditions, or elect, to redeem the Notes. The Issuer may be more likely to exercise its option to redeem the Notes on the Reset Date if the Issuer's funding costs would be lower than the prevailing interest rate payable in respect of the Notes. If the Notes are so redeemed, there can be no assurance that Noteholders will be able to reinvest the amounts received upon redemption at a rate that will provide the same rate of return as their investment in the Notes.

The Issuer may not be liable to pay certain taxes

All payments by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the Relevant Jurisdiction (as at the date of this Prospectus, being Hungary or any political subdivision or any authority thereof or therein having power to tax), unless the withholding or deduction is required by law. In that event, in respect of payments of interest (but not principal or any other amount), the Issuer will (subject to certain customary exceptions) pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders in respect of payments of interest after the withholding or deduction shall equal the amounts which would have been receivable in respect of interest on the Notes in the absence of such withholding or deduction.

Potential investors should be aware that neither the Issuer nor any other person will be liable for or otherwise obliged to pay, and the relevant Noteholders will be liable for and/or pay, any tax, duty, charge, withholding or other payment whatsoever which may arise as a result of, or in connection with, the ownership, any transfer and/or any payment in respect of the Notes, except as provided for in Condition 9.

In particular, the Notes do not provide for payments of principal to be grossed up in the event withholding tax of the Relevant Jurisdiction is imposed on repayments of principal. As such, the Issuer would not be required to pay any Additional Amounts under the terms of the Notes to the extent any withholding or deduction applied to payments of principal. Accordingly, if any such withholding or deduction were to apply to any payments of principal under the Notes, Noteholders may receive less than the full amount due under the Notes and the market value of the Notes may be adversely affected.

The interest rate on the Notes will be reset on the Reset Date, which may affect the market value of the Notes

The Notes will initially accrue interest at a fixed rate of interest to, but excluding, the Reset Date. From, and including the Reset Date, however, the interest rate will be reset to the Reset Rate of Interest (as described in Condition 5). This Reset Rate of Interest could be less than the initial rate of interest, which could affect the amount of any interest payments under the Notes and so the market value of an investment in the Notes.

Future discontinuance of EURIBOR or the occurrence of a Benchmark Event may adversely affect the value of the Notes

EURIBOR and any other interest rate or other types of rates and indices which are deemed to be “benchmarks” are the subject of ongoing national and international regulatory discussions and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. Regulation (EU) No. 2016/1011 (the “**Benchmark Regulation**”) was published in the Official Journal of the European Union on 29 June 2016 and has applied from 1 January 2018 (with the exception of provisions specified in Article 59 (mainly on critical benchmarks) that have applied since 30 June 2016). The Benchmark Regulation could have a material impact on the Notes linked to EURIBOR, in particular, if the methodology or other terms of the “benchmark” are changed in order to comply with the terms of the Benchmark Regulation, and such changes could (amongst other things) have the effect of reducing or increasing the rate or level, or affecting the volatility of the published rate or level of the benchmark. In addition, the Benchmark Regulation stipulates that each administrator of a “benchmark” regulated thereunder must be licensed by the competent authority of the Member State where such administrator is located or if it is based in a non-EU jurisdiction, satisfy the equivalence conditions or be recognised or endorsed (the “**Approval**”). There is a risk that administrators of certain benchmarks will fail to obtain the necessary Approval, preventing them from continuing to provide such benchmarks. Other administrators may cease to administer certain “benchmarks” because of the additional costs of compliance with the Benchmark Regulation and other applicable regulations, and the risks associated therewith. There is also a risk that certain benchmarks may continue to be administered but may in time become obsolete.

As an example of such benchmark reforms, on 27 July 2017, the Chief Executive of the United Kingdom Financial Conduct Authority, which regulates LIBOR, announced that it does not intend to continue to persuade, or use its powers to compel, panel banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. Whilst the announcement related to LIBOR, similar concerns may be applicable to EURIBOR. The Financial Stability Board also made certain recommendations to reform major interest rate benchmarks, such as key interbank offered rates. It is not possible to predict whether, and to what extent, banks will continue to provide EURIBOR submissions to the administrator of EURIBOR going forwards.

The ECB and other European authorities have discussed proposals for alternative benchmarks. For example, the ECB announced plans for a new overnight rate for interbank unsecured lending among Euro-area banks in September 2017. The impact of such an overnight rate on six-month EURIBOR is currently unclear.

Following the implementation of any such potential reforms, the manner of administration of benchmarks may change, with the result that they may perform differently than in the past, or the benchmark could be eliminated entirely, or there could be other consequences that cannot be predicted. The elimination of the EURIBOR benchmark, or changes in the manner of its administration, could require or result in an adjustment to the interest calculation provisions of the Conditions, or result in adverse consequences to holders of the Notes. Furthermore, even prior to the implementation of any changes, uncertainty as to the nature of alternative reference rates and as to potential changes to such benchmark may adversely affect such benchmark during the term of the Notes, the return on the Notes and the trading market for securities (including the Notes) based on the same benchmark.

Investors should be aware that, if EURIBOR were discontinued or otherwise unavailable, the rate of interest on the Notes for the period from (and including) the Reset Date, which is based on a reset mid-swap rate, may be affected. If such rate is not available, the rate of interest on the Notes will be determined by the fall-back provisions applicable to the Notes. This may in certain circumstances result in the effective application of a fixed rate based on the rate which was last observed on the relevant Screen Page.

In addition, any changes to the administration of the applicable annualised mid-swap rate for swap transactions in euro (with a maturity equal to five years) as displayed on the Screen Page at 11.00 a.m. (Central European time) on the Reset Determination Date (the “**Mid-Swap Rate**”) or the emergence of alternatives to the Mid-

Swap Rate as a result of these potential reforms, may cause the Mid-Swap Rate to perform differently than in the past or to be discontinued, or there could be other consequences which cannot be predicted. The potential discontinuation of the Mid-Swap Rate or changes to its administration could require changes to the way in which the Reset Rate of Interest is calculated on the Notes from (and including) the Reset Date. Uncertainty as to the nature of alternative reference rates and as to potential changes to the Mid-Swap Rate may adversely affect the Reset Reference Rate, the return on the Notes and the trading market for securities (such as the Notes) based on the Mid-Swap Rate. The development of alternatives to the Mid-Swap Rate may result in the Notes performing differently than would otherwise have been the case if such alternatives to the Mid-Swap Rate had not developed. Any such consequence could have a material adverse effect on the value of, and return on, the Notes.

The Conditions also provide for certain fall-back arrangements in the event that a Benchmark Event occurs. The Issuer may, after appointing and consulting with an Independent Adviser, determine a Successor Rate or, failing which, an Alternative Reference Rate to be used in place of the Mid-Swap Rate. The use of any such Successor Rate or Alternative Reference Rate to determine the Reset Rate of Interest may result in the Notes performing differently (including paying a lower Reset Rate of Interest) than they would do if the Mid-Swap Rate were to continue to apply in its current form.

Furthermore, if a Successor Rate or Alternative Reference Rate is determined by the Issuer, the Conditions provide that the Issuer may vary the Conditions, as necessary, to ensure the proper operation of such Successor Rate or Alternative Reference Rate, without any requirement for consent or approval of the Noteholders.

If a Successor Rate or Alternative Reference Rate is determined by the Issuer, the Conditions also provide that an Adjustment Spread will be determined by the Issuer to be applied to such Successor Rate or Alternative Reference Rate. Accordingly, while any Adjustment Spread may be expected to be designed to eliminate or minimise any potential transfer of value between counterparties, the application of the Adjustment Spread to the Notes may not do so and may result in the Notes performing differently (which may include payment of a lower interest rate) than they would do if sub-paragraphs (i) and/or (iii) of the definition of Reset Reference Rate were to apply. However, there is no guarantee that such an Adjustment Spread will be determined or applied, or that the application of an Adjustment Spread will either reduce or eliminate economic prejudice to Noteholders. If no positive or negative Adjustment Spread is determined, a Successor Rate or Alternative Reference Rate may nonetheless be used to determine the Reset Rate of Interest. Any of the foregoing could have an adverse effect on the value or liquidity of, and return on, the Notes.

However, no Successor Rate, Alternative Reference Rate or Adjustment Spread (as applicable) will be adopted, and no other amendments to the Conditions will be made pursuant to the Conditions if, and to the extent that, in the determination of the Issuer, the same could reasonably be expected to prejudice the qualification of the Notes as Tier 2 Capital (as defined in the Conditions). Such a determination may result in the Notes performing differently than would otherwise have been the case prior to the Benchmark Event.

Moreover, any of the above matters or any other significant change to the setting or existence of the Mid-Swap Rate could adversely affect the ability of the Issuer to meet its obligations under the Notes and could have a material adverse effect on the value or liquidity of, and the amount payable under, the Notes.

The terms of the Notes may be modified (including a change in the governing law of Condition 16(d) (Acknowledgement of Statutory Loss Absorption Powers)), or the Notes may be substituted, by the Issuer without the consent of the Noteholders in certain circumstances, subject to certain restrictions

If a Tax Event or a Capital Disqualification Event has occurred and is continuing, the Issuer may (subject to certain conditions) at any time substitute all (but not some only) of the Notes for, or vary the terms of the Notes so that they remain or become (as applicable), Qualifying Tier 2 Securities, without the consent of the Noteholders. This may result in, among other things, changes to Condition 16(d) of the Notes to ensure that

Noteholders are bound by the exercise of Bail-in Powers (among other things) even if this is not favourable to them and even if it results in a change to the governing law of Condition 16(d) (which, on issue of the Notes, is English law).

Qualifying Tier 2 Securities must (other than in respect of the effectiveness and enforceability of Condition 16(d)) have terms not materially less favourable to Noteholders than the terms of the Notes, as reasonably determined by the Issuer in consultation with an independent investment bank or financial advisor of international standing. However, there can be no assurance that, due to the particular circumstances of a holder of Notes, such Qualifying Tier 2 Securities will be as favourable to each investor in all respects or that, if it were entitled to do so, a particular investor would make the same determination as the Issuer as to whether the terms of the Qualifying Tier 2 Securities are not materially less favourable to holders than the terms of the Notes.

Risks related to the Notes generally

The conditions of the Notes contain provisions which may permit their modification without the consent of all investors

The terms and conditions of the Notes contain provisions on convening meetings of Noteholders to deliberate on any proposals and consider any matters affecting their common interests *en masse*. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The value of the Notes could be adversely affected by a change in law or administrative practice

The terms and conditions of the Notes will be governed by the laws of England (save for the subordination and waiver of set-off provisions which are governed by the laws of Hungary). No assurance can be given as to the impact of any possible judicial decision or change to the laws of England (or Hungary, as the case may be) or administrative practice after the date of this Prospectus.

Judgments entered against Hungarian entities in the courts of a state which is not subject to the Brussels Regulations or the Lugano Convention may not be recognised or enforceable in Hungary

A judgment entered against a company incorporated in Hungary in the courts of a state which is not, under the terms of (i) Regulation (EU) No. 1215/2012 of the European Parliament and of the Council of 12 December 2012 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters (the “**2012 Brussels Regulation**”), (ii) Council Regulation (EC) No. 44/2001 of 22 December 2000 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters (the “**2000 Brussels Regulation**”), or (iii) the Convention on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters made at Lugano on 30 October 2007 (the “**Lugano Convention**”), a Member State (as defined in the 2012 Brussels Regulation and the 2000 Brussels Regulation) or a Contracting State (as defined in the Lugano Convention), may not be automatically recognised or enforceable in Hungary, as a matter of law without a retrial on its merits. As a result, when the UK leaves the EU, an English court judgment entered against the Issuer in relation to the Notes may not be recognised or enforceable in Hungary (absent any replacement arrangements being put in place).

Trading in the clearing systems

The denomination of the Notes will be €100,000 and integral multiples of €1,000 in excess thereof. Accordingly, it is possible that the Notes may be traded in the clearing systems in amounts in excess of €100,000 that are not integral multiples of €100,000. Should Certificates be required to be issued, they will be issued in principal amounts of €100,000 and higher integral multiples of €1,000 but will in no circumstances be issued to Noteholders who hold Notes in the relevant clearing system in amounts that are less than €100,000. Accordingly, any Noteholder who holds an amount which is less than €100,000 in principal amount of the Notes in his

account with the relevant clearing system at the relevant time may not receive a Certificate (should Certificates be printed) in respect of such holding. Such a Noteholder would need to purchase a principal amount of Notes such that its holding amounts to €100,000 in order to receive a Certificate.

If Certificates are issued, Noteholders should be aware that definitive Notes which have a denomination that is not an integral multiple of €100,000 may be illiquid and difficult to trade.

Reliance on the procedures of Euroclear and/or Clearstream, Luxembourg for transfers, payments and communication with the Issuer

The Notes will, upon issue, be represented by a Global Certificate that will be deposited with, and registered in the name of a nominee for, a common depository for Euroclear and Clearstream, Luxembourg. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Certificate. While the Notes are in global form, investors will be able to trade their beneficial interests only through Euroclear or Clearstream, Luxembourg, as the case may be.

While the Notes are in global form, the payment obligations of the Issuer under the Notes will be discharged upon such payments being made by or on behalf of the Issuer to or to the order of the nominee for the common depository. A holder of a beneficial interest in a security must rely on the procedures of Euroclear and/or Clearstream, Luxembourg, as the case may be, to receive payments under the Notes. The Issuer does not have any responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate.

The tax impact of an investment in the Notes should be carefully considered

Interest payments on Notes, or profits realised by an investor upon the sale or repayment of Notes, may be subject to taxation in its home jurisdiction or in other jurisdictions in which it is required to pay taxes. The tax impact on investors generally is described under the section of this Prospectus headed “*Taxation*” below; however, the tax impact on an individual investor may differ from the situation described for investors generally. Prospective investors, therefore, should contact their own tax advisors for advice on the tax impact of an investment in the Notes. Furthermore, the applicable tax regime may change to the disadvantage of the investors in the future.

Legality of purchase

Neither the Issuer nor any of its affiliates has or assumes responsibility for the lawfulness of the acquisition of the Notes by a prospective investor in the Notes, whether under the laws of the jurisdiction of its incorporation or the jurisdiction in which it operates (if different), or for compliance by that prospective investor with any law, regulation or regulatory policy applicable to it.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Notes are legal investments for it, (ii) the Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

A Noteholder’s actual yield on the Notes may be reduced from the stated yield by transaction costs

When Notes are purchased or sold, several types of incidental costs (including transaction fees and commissions) are incurred in addition to the current price of the security. These incidental costs may significantly reduce or even exclude the profit potential of the Notes. For instance, credit institutions as a rule charge their clients for own commissions which are either fixed minimum commissions or *pro-rata* commissions depending on the

order value. To the extent that additional - domestic or foreign - parties are involved in the execution of an order, including but not limited to domestic dealers or brokers in foreign markets, Noteholders must take into account that they may also be charged for the brokerage fees, commissions and other fees and expenses of such parties (third party costs).

In addition to such costs directly related to the purchase of Notes (direct costs), Noteholders must also take into account any follow-up costs (such as custody fees). Prospective investors should inform themselves about any additional costs incurred in connection with the purchase, custody or sale of the Notes before investing in the Notes.

Risks related to the market generally

An active secondary market in respect of the Notes may never be established or may be illiquid and this could adversely affect the value at which an investor could sell his Notes

The Notes represent a new security for which no secondary trading market currently exists and there can be no assurance that one will develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have an adverse effect on the market value of Notes.

If a market for the Notes does develop, the trading price of the Notes may be subject to wide fluctuations in response to many factors, including those referred to in this risk factor, as well as stock market fluctuations and general economic conditions that may adversely affect the market price of the Notes. Such volatility may be increased in an illiquid market including in circumstances where a significant proportion of the Notes are held by a limited number of initial investors. Publicly traded bonds from time to time experience significant price and volume fluctuations that may be unrelated to the operating performance of the companies that have issued them, and such volatility may be increased in an illiquid market. If any market in the Notes does develop, it may become severely restricted, or may disappear, if the financial condition of the Issuer deteriorates such that there is an actual or perceived increased likelihood of the Issuer being unable to pay interest on the Notes in full, or of the Notes being subject to loss absorption under an applicable statutory loss absorption regime. In addition, the market price of the Notes may fluctuate significantly in response to a number of factors, some of which are beyond the Issuer's control.

Any or all of such events could result in material fluctuations in the price of Notes which could lead to investors losing some or all of their investment.

The issue price of the Notes may not be indicative of prices that will prevail in the trading market, and there can be no assurance that an investor would be able to sell its Notes at or near the price which it paid for them, or at a price that would provide it with a yield comparable to more conventional investments that have a developed secondary market.

Moreover, although the Issuer can or can procure others to (subject to Supervisory Permission and compliance with prevailing Regulatory Capital Requirements) purchase Notes at any time, it has no obligation to do so. Purchases made by (or on behalf of) the Issuer could affect the liquidity of the secondary market of the Notes and thus the price and the conditions under which investors can negotiate these Notes on the secondary market.

In addition, Noteholders should be aware that if there is a general lack of liquidity in the secondary market this may result in investors suffering losses on the Notes in secondary resales even if there is no decline in the performance of the Notes or the assets of the Issuer. The Issuer cannot predict whether these circumstances will change.

Although an application has been made for the Notes to be admitted to trading on the Luxembourg Stock Exchange, there is no assurance that such application will be accepted or that an active trading market will develop.

An investor may be adversely affected by movements in exchange rates

The Issuer will pay principal and interest on the Notes in Euros. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than the Euro. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Euro would decrease (i) the Investor's Currency-equivalent yield on the Notes, (ii) the Investor's Currency equivalent value of the principal payable on the Notes and (iii) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer to make payments in respect of the Notes. As a result, investors may receive less interest or principal than expected, or no interest or principal.

The value of the Notes may be adversely affected by movements in market interest rates

The development of market prices of the Notes depends on various factors, such as changes in market interest rate levels, the policies of central banks, overall economic developments, inflation rates or the lack of or excess demand for the relevant type of Notes. Noteholders will therefore be exposed to the risk of an unfavourable development of market prices of the Notes which materialises if the Noteholder sells the Notes prior to the final maturity date. The rate of interest will be reset after five years, and as such the Reset Rate of Interest (as described in Condition 5) is not pre-defined at the date of issue of the Notes; it may be different from the initial rate of interest and may adversely affect the yield of the Notes.

Investment in the Notes involves the risk that if market interest rates subsequently increase above the rate paid on the Notes, this will adversely affect the value of the Notes.

Credit ratings assigned to the Issuer or the Notes may not reflect all the risks associated with an investment in the Notes

The Notes have been assigned a rating of Ba1 by Moody's and may in the future be rated by additional independent credit rating agencies (including on an unsolicited basis), although the Issuer is under no obligation to ensure that the Notes are rated by any credit rating agency. Credit ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed in these risk factors and other factors that may affect the liquidity or market value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the credit rating agency at any time.

If the Issuer no longer maintains one or more credit ratings, if any other independent credit rating agency decides to assign a rating to the Notes, or if any credit rating agency withdraws, suspends or downgrades any credit ratings of the Issuer or the Notes, or if such a withdrawal, suspension or downgrade is anticipated (or any credit rating agency places the credit ratings of the Issuer or the Notes on "credit watch" status in contemplation of a downgrade, suspension or withdrawal), such event could adversely affect the liquidity and market value of the Notes.

In general, European regulated investors are restricted under Regulation (EC) No. 1060/2009 (as amended) (the "CRA Regulation") from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued

by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). Moody's is organised in the EU and registered for the purposes of the CRA Regulation.

Please see the risk factor titled "*The OTP Group will be required to maintain a minimum requirement for own funds and eligible liabilities*" above for additional details regarding the possible incurrence of further indebtedness.

The value of the Notes may be adversely affected by inflation

Inflation risk describes the possibility that the value of assets such as the Notes or income thereon will decrease as inflation shrinks the purchasing value of a currency. Inflation causes the rate of return to decrease in value. If the inflation rate exceeds the interest paid on any Notes the yield on such Notes will become negative.

TERMS AND CONDITIONS OF THE NOTES

The following, subject to alteration and completion, are the terms and conditions of the Notes which will be endorsed on each Certificate in definitive form (if issued).

The issue of the €500,000,000 Fixed Rate Reset Callable Subordinated Notes due 15 July 2029 (the “**Notes**”) of OTP Bank Nyrt. (the “**Issuer**”) was authorised by a resolution of the Asset Liability Committee of the Issuer passed on 26 June 2019. A fiscal agency agreement dated 15 July 2019 (the “**Fiscal Agency Agreement**”) has been entered into in relation to the Notes between the Issuer, Citibank, N.A., London Branch as fiscal agent and agent bank, Citigroup Global Markets Europe AG as registrar and the other agents named in it. The Notes have the benefit of a Deed of Covenant (the “**Deed of Covenant**”) dated 15 July 2019 executed by the Issuer relating to the Notes. The fiscal agent, the agent bank, the registrar and any transfer agent for the time being are referred to below respectively as the “**Fiscal Agent**”, the “**Agent Bank**”, the “**Registrar**” and the “**Transfer Agents**”. “**Agents**” means the Fiscal Agent, the Agent Bank, the Registrar, the Transfer Agents and any other agent or agents appointed from time to time with respect to the Notes. The Fiscal Agency Agreement includes the form of the Notes. Copies of the Fiscal Agency Agreement and the Deed of Covenant are available for inspection during normal business hours at the specified offices of the Fiscal Agent, the Registrar and any Transfer Agents. The holders of the Notes (the “**Holders**”) are deemed to have notice of all the provisions of the Fiscal Agency Agreement applicable to them.

1 Form, Denomination and Title

(a) *Form and Denomination*

The Notes are serially numbered in the denomination of €100,000 and integral multiples of €1,000 in excess thereof.

The Notes are represented by registered certificates (“**Certificates**”) and, save as provided in Condition 2(a), each Certificate shall represent the entire holding of Notes by the same Holder.

In these Conditions, “**Noteholder**” or “**Holder**” means the person in whose name a Note is registered in the Register (as defined below).

(b) *Title*

Title to the Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Fiscal Agency Agreement (the “**Register**”). Except as ordered by a court of competent jurisdiction or as required by law, the Holder of any Note shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on the Certificate representing it or the theft or loss of such Certificate and no person shall be liable for so treating the Holder.

2 Transfers of Notes

(a) *Transfer*

A holding of Notes may, subject to Condition 2(d), be transferred in whole or in part upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate(s) representing such Notes to be transferred, together with the form of transfer endorsed on such Certificate(s), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate

in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Notes to a person who is already a Holder of Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding. All transfers of Notes and entries in the Register will be made in accordance with the detailed regulations concerning transfers of Notes scheduled to the Fiscal Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Fiscal Agent. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

(b) *Delivery of New Certificates*

Each new Certificate to be issued pursuant to Condition 2(a) shall be available for delivery within three business days of receipt of a duly completed and executed form of transfer and surrender of the existing Certificate(s). Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer and Certificate(s) shall have been made or, at the option of the Holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the Holder entitled to the new Certificate to such address as may be so specified, unless such Holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/ or such insurance as it may specify. In this Condition 2(b), “**business day**” means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(c) *Transfer Free of Charge*

Certificates, on transfer, shall be issued and registered without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent, but upon payment of any tax or other governmental charges that may be imposed in relation to such transfer (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(d) *Closed Periods*

No Noteholder may require the transfer of a Note to be registered (i) during the period of 15 days ending on (and including) the due date for redemption of that Note, (ii) during the period of 15 days prior to (and including) any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(c), (iii) after the Notes have been called for redemption, or (iv) during the period of seven days ending on (and including) any Record Date.

3 Status

The Notes constitute direct and unsecured obligations of the Issuer and rank *pari passu* and without any preference among themselves. The rights and claims of Holders in respect of, or arising under, their Notes (including any damages awarded for breach of obligations in respect thereof) are subordinated as described in Condition 4.

4 Subordination and Waiver of Set-off

(a) *Winding-Up*

If a Winding-Up (as defined in Condition 18) occurs, the rights and claims of Holders against the Issuer in respect of, or arising under, each Note shall be for (in lieu of any other payment by the Issuer) an amount equal to the principal amount of the relevant Note, together with, to the extent not otherwise

included within the foregoing, any other amounts attributable to such Note, including any accrued and unpaid interest thereon and any damages awarded for breach of any obligations in respect of such Note, provided however that such rights and claims shall be subordinated as provided in this Condition 4(a) to the claims of all Senior Creditors but shall rank (i) subject as provided in (ii), at least *pari passu* with the claims of holders of all other subordinated obligations of the Issuer which constitute, or would but for any applicable limitation on the amount of such capital constitute, Tier 2 Capital and (ii) in priority to (A) the claims of holders of all undated or perpetual subordinated obligations of the Issuer (including for the avoidance of doubt, the Issuer's obligations under its EUR 500,000,000 fixed to floating rate perpetual subordinated notes (ISIN: XS0274147296) and the Issuer's payment obligations pursuant to the subordinated swap agreement entered into by it with Opus Securities S.A. in connection with the EUR 514,274,000 income certificates issued by Opus Securities S.A. and exchangeable into ordinary shares of the Issuer (ISIN: XS0272723551) and, further, any undated or perpetual obligations which constitute, or would but for any applicable limitation on the amount of such capital constitute, Tier 2 Capital), (B) obligations of the Issuer which constitute, or would but for any applicable limitation on the amount of such capital constitute, Tier 1 Capital, (C) all obligations which rank, or are expressed to rank, *pari passu* with such obligations described in (A) and (B), and (D) the claims of holders of all classes of share capital of the Issuer.

(b) *Set-off*

Subject to applicable law, no Holder may exercise, claim or plead any right of set-off, compensation, retention, counter-claim, abatement or other similar right or remedy which it might otherwise have under the laws of any jurisdiction in respect of any amount owed to it by the Issuer in respect of, or arising under or in connection with the Notes and each Holder shall, by virtue of his holding of any Note, be deemed, to the extent permitted under applicable law, to have waived all such rights of set-off, compensation, retention, counter-claim, abatement or other similar right or remedy which it might otherwise have under the laws of any jurisdiction. Notwithstanding the preceding sentence, if any of the amounts owing to any Holder by the Issuer in respect of, or arising under or in connection with the Notes is discharged by set-off or such other similar right or remedy, such Holder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Issuer (or, in the event of a Winding-Up, the relevant insolvency official appointed in respect of the Issuer) and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Issuer (or the relevant insolvency official appointed in respect of the Issuer) and accordingly any such discharge shall be deemed not to have taken place.

(c) *No Security/Guarantee: No Enhancement of Seniority*

The Notes are neither secured nor subject to a guarantee or any other arrangement that enhances the seniority of the claims under the Notes.

5 Interest Payments

(a) *Interest Rate*

Each Note bears interest at the applicable Interest Rate from (and including) the Issue Date in accordance with the provisions of this Condition 5.

Interest shall be payable on the Notes annually in arrear on each Interest Payment Date as provided in this Condition 5.

Where it is necessary to compute an amount of interest in respect of any Note for a period which is less than a complete Interest Period, the relevant day-count fraction shall be determined on the basis of the

number of days in the relevant period, from and including the date from which interest begins to accrue to but excluding the date on which it falls due, divided by the actual number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last).

(b) *Interest Accrual*

The Notes will cease to bear interest from (and including) the due date for redemption thereof pursuant to Condition 6(a), (c), (d) or (e) or the date of substitution thereof pursuant to Condition 6(f), as the case may be, unless, upon surrender of the Certificate representing any Note, payment of all amounts due in respect of such Note is not properly and duly made, in which event interest shall continue to accrue on the Notes, both before and after judgment, and shall be payable, as provided in these Conditions up to (but excluding) the Relevant Date. Interest in respect of any Note shall be calculated per Calculation Amount and the amount of interest per Calculation Amount shall be equal to the product of (i) the Calculation Amount, (ii) the relevant Interest Rate and (iii) the day-count fraction as described in Condition 5(a) for the relevant period, rounding the resultant figure to the nearest cent (half a cent being rounded upwards). Where the denomination of a Note is more than the Calculation Amount, the amount of interest payable in respect of each Note is the aggregate of the amounts (calculated as aforesaid) for each Calculation Amount comprising the denomination of the Note.

(c) *Initial Fixed Interest Rate*

For the Initial Fixed Rate Interest Period, the Notes bear interest at the rate of 2.875 per cent. per annum (the “**Initial Fixed Interest Rate**”).

(d) *Reset Rate of Interest*

The Interest Rate will be reset (the “**Reset Rate of Interest**”) in accordance with this Condition 5 on the Reset Date. The Reset Rate of Interest will be determined by the Agent Bank on the Reset Determination Date as the sum of the Reset Reference Rate and the Margin. For the Reset Period, the Notes bear interest at the Reset Rate of Interest.

(e) *Determination of Reset Rate of Interest*

The Agent Bank will, as soon as practicable after 11:00 a.m. (Central European time) on the Reset Determination Date, determine the Reset Rate of Interest in respect of the Reset Period. The determination of the Reset Rate of Interest by the Agent Bank shall (in the absence of manifest error) be final and binding upon all parties.

(f) *Publication of Reset Rate of Interest*

The Agent Bank shall cause notice of the Reset Rate of Interest determined by it in accordance with this Condition 5 in respect of the Reset Period to be given to the Issuer, the Fiscal Agent, the Registrar, each of the Transfer Agents, any stock exchange on which the Notes are for the time being listed or admitted to trading and, in accordance with Condition 13, the Holders, in each case as soon as practicable after its determination but in any event not later than the fourth Business Day thereafter.

If the Notes become due and payable pursuant to Condition 8(a), the accrued interest per Calculation Amount and the Reset Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously by the Agent Bank in accordance with this Condition 5 but no publication of the Reset Rate of Interest need be made.

(g) *Agent Bank and Reset Reference Banks*

The Issuer will maintain an Agent Bank and the number of Reset Reference Banks provided below where the Reset Rate of Interest is to be calculated by reference to them. The name of the initial Agent Bank and its initial specified office is set out at the end of these Conditions.

The Issuer may from time to time replace the Agent Bank or any Reset Reference Bank with another leading investment, merchant or commercial bank or financial institution in the eurozone. If the Agent Bank is unable or unwilling to continue to act as the Agent Bank or fails duly to determine the Reset Rate of Interest in respect of the Reset Period as provided in Condition 5(d), the Issuer shall forthwith appoint another leading investment, merchant or commercial bank or financial institution in the eurozone to act as such in its place. The Agent Bank may not resign its duties or be removed without a successor having been appointed as aforesaid.

(h) *Determinations of Agent Bank Binding*

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 5 by the Agent Bank, shall (in the absence of manifest error) be binding on the Issuer, the Agent Bank, the Fiscal Agent, the Registrar, the Transfer Agents and all Holders and (in the absence of wilful default or negligence) no liability to the Holders or the Issuer shall attach to the Agent Bank in connection with the exercise or non-exercise by it of any of its powers, duties and discretions.

(i) *Benchmark Replacement*

The provisions of this Condition 5(i) will apply in the circumstances set out in paragraph (b) of the definition of “Reset Reference Rate” in Condition 18:

- (i) the Issuer shall use reasonable endeavours, as soon as reasonably practicable, to appoint an Independent Adviser to determine (without any requirement for the consent or approval of the Holders): (x) a Successor Rate or, failing which, an Alternative Reference Rate, for the purposes of determining the Reset Rate of Interest (or the relevant component part thereof) applicable to the Notes; and (y) in either case, an Adjustment Spread and any Benchmark Amendments (as described under paragraph (v) below);
- (ii) if the Issuer is unable to appoint an Independent Adviser prior to the IA Determination Cut-Off Date, the Issuer (acting in good faith and in a commercially reasonable manner) may still determine: (x) a Successor Rate or, failing which, an Alternative Reference Rate; and (y) in either case, an Adjustment Spread in accordance with this Condition 5(i);
- (iii) if a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) is determined in accordance with paragraphs (i) or (ii) above, such Successor Rate or, failing which, Alternative Reference Rate (as applicable) and the applicable Adjustment Spread shall be the Reset Reference Rate;
- (iv) the Adjustment Spread (or the formula or methodology for determining the Adjustment Spread) shall be applied to the Successor Rate or the Alternative Reference Rate (as applicable);
- (v) if the Independent Adviser or, if the Issuer is unable to appoint an Independent Adviser, the Issuer determines a Successor Rate or Alternative Reference Rate and, in either case, the applicable Adjustment Spread in accordance with the above provisions, the Issuer may (without any requirement for the consent or approval of the Holders) also vary these Conditions and/or the Fiscal Agency Agreement (such amendments, the “**Benchmark Amendments**”) in order to

ensure the proper operation of such Successor Rate or Alternative Reference Rate and/or (in either case) the applicable Adjustment Spread, including, but not limited to: (x) the day count fraction, Screen Page, Business Days, Reset Determination Date and/or the definition of Reset Reference Rate; and (y) the method for determining the fall-back rate in relation to the Notes. For the avoidance of doubt, the Fiscal Agent and any other agents party to the Fiscal Agency Agreement shall, at the direction and expense of the Issuer, effect such consequential amendments to the Fiscal Agency Agreement and these Conditions as may be required in order to give effect to the application of this Condition 5(i). No consent shall be required from the Holders in connection with determining or giving effect to the Successor Rate or Alternative Reference Rate (as applicable) and the Adjustment Spread or such other changes, including for the execution of any documents or other steps to be taken by the Fiscal Agent and any other agents party to the Fiscal Agency Agreement (if required, desirable or useful). In connection with any such variation in accordance with this Condition 5(i)(v), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading; and

- (vi) the Issuer shall promptly, following the determination of any Successor Rate, Alternative Reference Rate, Adjustment Spread or Benchmark Amendments (as applicable), give notice thereof to the Fiscal Agent, the Agent Bank and, in accordance with Condition 13, the Holders. Each such notice shall specify the effective date(s) for such Successor Rate or Alternative Reference Rate (as applicable), the Adjustment Spread and any Benchmark Amendments.

An Independent Adviser appointed pursuant to this Condition 5(i) shall act in good faith as an expert. In the absence of bad faith or fraud, the Independent Adviser shall have no liability whatsoever to the Issuer, the Fiscal Agent, the Agent Bank or the Holders for any determination made by it pursuant to this Condition 5(i).

Notwithstanding any other provision in this Condition 5(i), no Successor Rate or Alternative Reference Rate will be adopted, nor will the applicable Adjustment Spread be applied, nor will any Benchmark Amendments (or any consequential amendments) be made, if, and to the extent that, in the determination of the Issuer, the same could reasonably be expected to prejudice the qualification of the Notes as Tier 2 Capital.

6 Redemption, Substitution, Variation and Purchase

(a) Final Redemption

Unless previously redeemed or purchased and cancelled or (pursuant to Condition 6(f)) substituted, the Notes will be redeemed at their principal amount, together with accrued and unpaid interest, on 15 July 2029 (the “**Maturity Date**”). The Notes may not be redeemed at the option of the Issuer other than in accordance with this Condition 6.

(b) Conditions to Early Redemption, Substitution, Variation and Purchase

Any redemption or purchase of the Notes or any substitution or variation of the terms of the Notes, in each case in accordance with Conditions 6(c), (d), (e), (f) or (g) is subject to:

- (i) the Issuer having obtained prior Supervisory Permission therefor and in the case of any redemption or purchase, if and to the extent then required under prevailing Regulatory Capital Requirements either:
 - (x) the Issuer having replaced the Notes with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Issuer; or

- (y) the Issuer having demonstrated to the satisfaction of the Competent Authority that the own funds and eligible liabilities of the Issuer would, following such redemption or purchase, exceed the minimum capital requirements (including any capital buffer requirements) applicable to the Issuer by a margin that the Competent Authority considers necessary at such time; and
- (ii) in the case of any redemption prior to the fifth anniversary of the Issue Date, if and to the extent then required under prevailing Regulatory Capital Requirements:
 - (x) in the case of redemption due to the occurrence of a Tax Event, the Issuer has demonstrated to the satisfaction of the Competent Authority that the applicable change in tax treatment is material and was not reasonably foreseeable as at the Issue Date; or
 - (y) in the case of redemption due to the occurrence of a Capital Disqualification Event, the Issuer has demonstrated to the satisfaction of the Competent Authority that the relevant change in the regulatory classification of the Notes was not reasonably foreseeable as at the Issue Date.

Notwithstanding the above conditions, if, prior to the Maturity Date, at the time of any redemption, substitution, variation or purchase, the prevailing Regulatory Capital Requirements (including any such Regulatory Capital Requirements which are imposed in order for the Notes to be eligible to qualify as Tier 2 Capital) permit the repayment, substitution, variation or purchase only after compliance with one or more alternative or additional pre-conditions to those set out above in this Condition 6(b), the Issuer shall comply with such other and/or, as appropriate, additional pre-condition(s), if any.

Prior to the publication of any notice of substitution, variation or redemption pursuant to this Condition 6 (other than redemption pursuant to Condition 6(c)), the Issuer shall deliver to the Fiscal Agent to make available at its registered office to the Holders a copy of (i) a certificate signed by two Directors stating that the relevant requirement or circumstance giving rise to the right to redeem, substitute or, as appropriate, vary is satisfied and, in the case of a substitution or variation, that the terms of the relevant Qualifying Tier 2 Securities comply with the definition thereof in Condition 18 and (ii) in the case of a redemption pursuant to Condition 6(d) only, an opinion from a nationally recognised law firm or other tax adviser in the Relevant Jurisdiction, experienced in such matters to the effect that the relevant requirement or circumstance referred to in the definition of “Tax Event” applies (but, for the avoidance of doubt, such opinion shall not be required to comment on the ability of the Issuer to avoid such circumstance by taking measures reasonably available to it).

(c) *Issuer’s Call Option*

Subject to Condition 6(b), the Issuer may, in its sole discretion, by giving not less than 30 nor more than 60 days’ notice to the Holders in accordance with Condition 13, the Registrar and the Fiscal Agent (which notice shall be irrevocable), elect to redeem all, but not some only, of the Notes on the Reset Date at their principal amount, together with any accrued and unpaid interest thereon to (but excluding) the Reset Date.

(d) *Early Redemption Due to Tax Event*

If, prior to the giving of the notice referred to below in this Condition 6(d), a Tax Event has occurred and is continuing, then the Issuer may, subject to Condition 6(b) and having given not less than 30 nor more than 60 days’ notice to the Holders in accordance with Condition 13, the Registrar and the Fiscal Agent (which notice shall be irrevocable and shall specify the date for redemption), elect to redeem in accordance with these Conditions at any time all, but not some only, of the Notes at their principal amount, together with any accrued and unpaid interest thereon to (but excluding) the date fixed for redemption. The Issuer shall redeem the Notes on the date fixed for redemption.

(e) *Early Redemption Due to Capital Disqualification Event*

If, prior to the giving of the notice referred to below in this Condition 6(e), a Capital Disqualification Event has occurred and is continuing, then the Issuer may, subject to Condition 6(b) and having given not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 13, the Registrar and the Fiscal Agent (which notice shall be irrevocable and shall specify the date for redemption), elect to redeem in accordance with these Conditions at any time all, but not some only, of the Notes at their principal amount, together with any accrued and unpaid interest thereon to (but excluding) the date fixed for redemption. The Issuer shall redeem the Notes on the date fixed for redemption.

(f) *Substitution or Variation*

If a Tax Event or a Capital Disqualification Event has occurred and is continuing, then the Issuer may, subject to Condition 6(b) and having given not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 13, the Registrar and the Fiscal Agent (which notice shall be irrevocable and shall specify the date for substitution or, as the case may be, variation of the Notes) but without any requirement for the consent or approval of the Holders, at any time (whether before or following the Reset Date) either substitute all (but not some only) of the Notes for, or vary the terms of the Notes so that they remain or, as appropriate, become, Qualifying Tier 2 Securities and may make any required consequential amendments to the Deed of Covenant and the Fiscal Agency Agreement. Upon the expiry of such notice, the Issuer shall either vary the terms of or substitute the Notes in accordance with this Condition 6(f), as the case may be and make any required consequential amendments to the Deed of Covenant and the Fiscal Agency Agreement.

In connection with any substitution or variation in accordance with this Condition 6(f), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

(g) *Purchases*

The Issuer may, subject to Condition 6(b), purchase (or otherwise acquire), or procure others to purchase (or otherwise acquire) beneficially for its account, Notes in any manner and at any price. The Notes so purchased (or acquired), while held by or on behalf of the Issuer, shall not entitle the Holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders.

(h) *Cancellation*

All Notes redeemed or substituted by the Issuer pursuant to this Condition 6 will forthwith be cancelled. All Notes purchased by or on behalf of the Issuer may, subject to obtaining any Supervisory Permission therefor, be held, reissued, resold or, at the option of the Issuer, surrendered for cancellation to the Registrar. Notes so surrendered, shall be cancelled forthwith. Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

7 Payments

(a) *Method of Payment*

(i) Payments of principal shall be made in euro (subject to surrender of the relevant Certificates at the specified office of any Transfer Agent or of the Registrar if no further payment falls to be

made in respect of the Notes represented by such Certificates) in like manner as is provided for payments of interest in paragraph (ii) below.

- (ii) Interest on each Note shall be paid to the person shown in the Register at the close of business on the business day before the due date for payment thereof (the “**Record Date**”). Payments of interest on each Note shall be made in euro by transfer to an account in euro maintained by the payee with a bank in a city in which banks have access to the TARGET System.

(b) *Payments Subject to Laws*

Save as provided in Condition 9, payments will be subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment or other laws or regulations to which the Issuer or its Agents agree to be subject and the Issuer will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations, directives or agreements. No commissions or expenses shall be charged to the Holders in respect of such payments.

(c) *Payment Initiation*

Payment instructions (for value the due date, or if that date is not a business day, for value the first following day which is a business day) will be initiated on the last day on which the Fiscal Agent is open for business preceding the due date for payment or, in the case of payments of principal where the relevant Certificate has not been surrendered at the specified office of any Transfer Agent or of the Registrar, on a day on which the Fiscal Agent is open for business and on which the relevant Certificate is surrendered.

(d) *Non-Business Days*

If any date for payment in respect of any Note is not a business day, the Holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this Condition 7, “**business day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the place in which the specified offices of the Registrar and the Fiscal Agent are located and which is a TARGET Business Day.

8 Enforcement

(a) *Consequences of non-payment and Winding-Up*

If the Issuer shall not make payment in respect of the Notes (in the case of payment of principal) for a period of seven days or more or (in the case of any interest payment) shall not make payment for a period of 14 days or more, in each case after the date on which such payment is due, the Issuer shall be deemed to be in default under the Notes and a Holder may, notwithstanding the provisions of Condition 8(b), institute proceedings for the winding-up of the Issuer.

In the event of a Winding-Up of the Issuer, a Holder may prove and/or claim in such Winding-Up of the Issuer, such claim being as contemplated in Condition 4(a).

(b) *Enforcement*

Without prejudice to Condition 8(a), a Holder may at its discretion and without notice institute such steps, actions or proceedings against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Notes (other than any payment obligation of the Issuer under or arising from the Notes, including, without limitation, payment of any principal or interest in respect of the Notes, including any damages awarded for breach of any obligations) and in no event shall the Issuer, by virtue of the institution of any such steps, actions or proceedings, be obliged to pay any sum or sums, in cash

or otherwise, sooner than the same would otherwise have been payable by it pursuant to these Conditions. Nothing in this Condition 8(b) shall, however, prevent a Holder instituting proceedings for the winding-up of the Issuer and/or proving and/or claiming in any Winding-Up of the Issuer in respect of any payment obligations of the Issuer arising from the Notes (including any damages awarded for breach of any obligations) in the circumstances provided in Condition 4(a) and 8(a).

(c) ***Extent of Holders' Remedy***

No remedy against the Issuer, other than as referred to in this Condition 8, shall be available to the Holders, whether for the recovery of amounts owing in respect of the Notes or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Notes.

9 Taxation

All payments of principal, interest and any other amounts by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the Relevant Jurisdiction, unless such withholding or deduction is required by law. In that event, in respect of payments of interest (but not principal or any other amount), the Issuer will pay such additional amounts ("**Additional Amounts**") as will result in receipt by the Holders of such amounts as would have been received by them in respect of payments of interest had no such withholding or deduction been required, except that no such Additional Amounts shall be payable in respect of any Note:

- (a) held by or on behalf of a Holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with the Relevant Jurisdiction other than a mere holding of such Note; or
- (b) in respect of which the certificate representing it is presented for payment more than 30 days after the Relevant Date except to the extent that the Holder thereof would have been entitled to such Additional Amounts on presenting the same for payment on the last day of such period of 30 days.

References in these Conditions to interest shall be deemed to include any Additional Amounts which may become payable pursuant to the foregoing provisions.

Notwithstanding any other provisions of these Conditions, all payments of principal, interest and any other amount by or on behalf of the Issuer in respect of the Notes shall be made net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or any intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a "**FATCA Withholding**"). Neither the Issuer nor any other person will be required to pay any Additional Amounts in respect of FATCA Withholding.

10 Prescription

Claims against the Issuer for payment in respect of the Notes shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

11 Meetings of Holders, Modification and Waiver

(a) *Meetings of Holders*

The Fiscal Agency Agreement contains provisions for convening meetings of Holders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions. Such a meeting may be convened by the Issuer or by Holders holding not less than 10 per cent. in principal amount of the Notes for the time being outstanding.

The quorum at any such meeting for passing an Extraordinary Resolution will be one or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Holders whatever the principal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain of these Conditions (including, *inter alia*, the provisions regarding subordination referred to in Conditions 3 and 4, the terms concerning currency and due dates for payment of principal or interest payments in respect of the Notes and reducing or cancelling the principal amount of, or interest on, any Notes or the Interest Rate or varying the method of calculating the Interest Rate) and certain other provisions of the Fiscal Agency Agreement, the quorum will be one or more persons holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, in principal amount of the Notes for the time being outstanding. The agreement or approval of the Holders shall not be required in the case of any variation of these Conditions required to be made in the circumstances described in Condition 6(f) in connection with the variation of the terms of the Notes so that they become, Qualifying Tier 2 Securities.

An Extraordinary Resolution passed at any meeting of Holders will be binding on all Holders, whether or not they are present at the meeting.

The Fiscal Agency Agreement provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in principal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Holders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Holders.

The consent or approval of the Holders shall not be required in the case of amendments to the Conditions pursuant to Condition 5(i) to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating the Reset Rate of Interest in respect of the Notes or for any other variation of these Conditions and/or the Fiscal Agency Agreement required to be made in the circumstances described in Condition 5(i), where the Issuer has delivered to the Fiscal Agent a notice pursuant to Condition 5(i)(vi).

(b) *Modification*

The Issuer shall only permit any modification of, or any waiver or authorisation of any breach or proposed breach of or any failure to comply with, the Fiscal Agency Agreement (excluding, for the avoidance of doubt, the Conditions), if to do so could not reasonably be expected to be prejudicial to the interests of the Holders.

No modification to these Conditions or any other provisions of the Fiscal Agency Agreement shall become effective unless (if and to the extent required at the relevant time by the Competent Authority) the Issuer shall have given at least 30 days' prior written notice thereof to, and received Supervisory Permission therefor from, the Competent Authority (or such other period of notice as the Competent

Authority may from time to time require or accept and, in any event, provided that there is a requirement to give such notice and obtain such Supervisory Permission).

(c) Notices

Any such modification, waiver or authorisation shall be notified to the Holders in accordance with Condition 13 as soon as practicable thereafter.

12 Replacement of the Notes

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws and regulations, at the specified office of the Registrar or such other Transfer Agent as may from time to time be designated by the Issuer for that purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (provided that the requirement is reasonable in light of prevailing market practice). Mutilated or defaced Certificates must be surrendered before replacements will be issued.

13 Notices

Notices required to be given to the Holders pursuant to the Conditions shall be mailed to them at their respective addresses in the Register and deemed to have been given on the third weekday (being a day other than a Saturday or Sunday) after the date of mailing. The Issuer shall also ensure that all such notices are duly published (if such publication is required) in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed and/or admitted to trading.

14 Further Issues

The Issuer may from time to time without the consent of the Noteholders, but subject to any Supervisory Permission (if required at the relevant time), create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes.

15 Agents

The initial Fiscal Agent, the Registrar, the Agent Bank and the Transfer Agents and their initial specified offices are listed below. They act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder. The Issuer reserves the right at any time to vary or terminate the appointment of the Fiscal Agent, the Registrar, the Agent Bank and the Transfer Agents and to appoint replacement agents or other Transfer Agents, provided that it will:

- (a) at all times maintain a Fiscal Agent, a Registrar and a Transfer Agent; and
- (b) whenever a function expressed in these Conditions to be performed by the Agent Bank falls to be performed, appoint and (for so long as such function is required to be performed) maintain an Agent Bank.

Notice of any such termination or appointment and of any change in the specified offices of the Agents will be given to the Holders in accordance with Condition 13. If any of the Agent Bank, Registrar or the Fiscal Agent

is unable or unwilling to act as such or if it fails to make a determination or calculation or otherwise fails to perform its duties under these Conditions or the Fiscal Agency Agreement (as the case may be), the Issuer shall appoint an independent financial institution of international repute to act as such in its place. All calculations and determinations made by the Agent Bank, the Registrar or the Fiscal Agent in relation to the Notes shall (save in the case of manifest error) be final and binding on the Issuer, the Agent Bank, the Registrar, the Fiscal Agent and the Holders.

16 Governing Law and Jurisdiction

(a) *Governing Law*

The Fiscal Agency Agreement, the Notes and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, the laws of England, save that the provisions of Condition 4 relating to the subordination of the Notes and waiver of set-off are governed by, and shall be construed in accordance with, the laws of Hungary.

(b) *Jurisdiction*

The courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with the Notes and accordingly any legal action or proceedings arising out of or in connection with any Notes (including any legal action or proceedings relating to non-contractual obligations arising out of or in connection with them) (“**Proceedings**”) may be brought in such courts. The Issuer irrevocably submits to the jurisdiction of the courts of England in respect of any such Proceedings and waives any objection to Proceedings in any such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission is made for the benefit of each of the Noteholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

(c) *Service of Process*

The Issuer irrevocably appoints Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX as its agent in England to receive service of process in any Proceedings in England. If for any reason the Issuer does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Noteholders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

(d) *Acknowledgement of Statutory Loss Absorption Powers*

Notwithstanding and to the exclusion of any other term of the Notes or any other agreements, arrangements, or understanding between the Issuer and the Noteholders, each Noteholder acknowledges and accepts that a liability arising under the Notes may be subject to the exercise of the Bail-In Tool by the Resolution Authority, and acknowledges, accepts, and agrees to be bound by:

- (a) the effect of the exercise of the Bail-In Tool by the Resolution Authority in relation to any liability of the Issuer to the Noteholders under the Notes, that (without limitation) may include and result in any of the following, or some combination thereof:
 - (i) the reduction of all, or a portion, of the liabilities arising under the Notes or outstanding amounts due thereon;

- (ii) the conversion of all, or a portion, of the liabilities arising under the Notes into shares, other securities or other obligations of the Issuer or another person, and the issue to or conferral on the Noteholders of such shares, securities or obligations;
 - (iii) the cancellation of the liabilities arising under the Notes; and
 - (iv) the amendment or alteration of any interest, if applicable, thereon, the maturity or the dates on which any payments are due, including by suspending payment for a temporary period; and
- (b) the variation of the Conditions, as deemed necessary by the Resolution Authority (including, without limitation, the governing law and jurisdiction), to give effect to the exercise of the Bail-In Tool by the Resolution Authority.

17 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes by virtue of the Contracts (Rights of Third Parties) Act 1999.

18 Definitions

In these Conditions:

“**Additional Amounts**” has the meaning given to it in Condition 9;

“**Agent Bank**” has the meaning given to it in the preamble to these Conditions;

“**Adjustment Spread**” means either (a) a spread (which may be positive, negative or zero) or (b) a formula or methodology for calculating a spread in each case applied to with the Successor Rate or the Alternative Reference Rate (as applicable) and is the spread, formula or methodology which:

- (a) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Reset Reference Rate with the Successor Rate by any Relevant Nominating Body; or (if no recommendation has been made or in the case of an Alternative Reference Rate)
- (b) the Independent Adviser, or if the Issuer is unable to appoint an Independent Adviser, the Issuer determines is customarily applied to the relevant Successor Rate or the Alternative Reference Rate (as applicable) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Reset Reference Rate; or (if the Independent Adviser or the Issuer, as the case may be, determines that no such spread is customarily applied)
- (c) the Independent Adviser, or if the Issuer is unable to appoint an Independent Adviser, the Issuer determines is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Reset Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Reference Rate (as applicable);

“**Alternative Reference Rate**” means the rate that the Independent Adviser, or if the Issuer is unable to appoint an Independent Adviser, the Issuer determines has replaced the Reset Reference Rate customarily applied in international debt capital markets transactions for the purposes of determining rates of interest (or the relevant component part thereof) in respect of bonds denominated in euro and of a duration corresponding to the Reset Period;

“**Bail-In Tool**” means the mechanism for effecting the exercise by the Resolution Authority of the write-down and conversion powers in relation to liabilities of an institution:

- (a) prior to resolution in accordance with Sections 74 – 79;
- (b) under resolution in accordance with paragraphs d) to h) of subsection (1) of Section 84; or
- (c) under resolution in accordance with Sections 57 to 61 and/or Sections 69 to 73,

of Act XXXVII of 2014 on the improvement of the institutional system strengthening the security of certain participants of the financial intermediary system and any other law or regulation implementing, amending or superseding the provisions of such act or Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms;

“**Benchmark Amendments**” has the meaning given to it in Condition 5(i)(v);

“**Benchmark Event**” means:

- (a) the Reset Reference Rate ceasing to be published for a period of at least five Business Days or ceasing to exist; or
- (b) a public statement by the administrator of the Reset Reference Rate (or of a benchmark which is used to determine the Reset Reference Rate) that it has ceased or that it will cease to publish the Reset Reference Rate (or such benchmark) permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Reset Reference Rate or such benchmark); or
- (c) a public statement by the supervisor of the administrator of the Reset Reference Rate (or of a benchmark which is used to determine the Reset Reference Rate) that the Reset Reference Rate (or such benchmark) has been or will be permanently or indefinitely discontinued; or
- (d) a public statement by the supervisor or the administrator of the Reset Reference Rate (or of a benchmark which is used to determine the Reset Reference Rate) as a consequence of which the Reset Reference Rate (or such benchmark) will be prohibited from being used either generally or in respect of the Notes; or
- (e) it has become unlawful for the Agent, the Agent Bank or any other agents party to the Fiscal Agency Agreement to calculate any payments due to be made to any Noteholder using the Reset Reference Rate;

“**Business Day**” means a day which is a TARGET Business Day;

“**Calculation Amount**” means €1,000 in principal amount;

“**Capital Disqualification Event**” is deemed to have occurred if there is a change (which has occurred or which the Competent Authority considers to be sufficiently certain) in the regulatory classification of the Notes which becomes effective after the Issue Date and that results, or would be likely to result, in some of or the entire principal amount of the Notes being excluded from the Tier 2 Capital of the Issuer and, for the avoidance of doubt, any amortisation of the Notes pursuant to Article 64 of the CRR shall not comprise a Capital Disqualification Event;

“**Competent Authority**” means the National Bank of Hungary or such other authority having primary supervisory authority with respect to prudential matters concerning the Issuer and/or the Group;

“**Conditions**” means these terms and conditions of the Notes, as amended from time to time;

“**CRR**” means the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (*Capital Requirements Regulation*), as amended or replaced from time to time, and any references in

these Conditions to relevant Articles of the CRR include references to any applicable provisions of law amending or replacing such Articles from time to time;

“**Directors**” means the directors of the Issuer;

“**EEA Regulated Market**” means a market as defined by Article 4.1 (21) of Directive 2014/65/EU (as amended or superseded) of the European Parliament and of the Council on markets in financial instruments;

“**€**” or “**euro**” means the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty of Rome establishing the European Communities as amended;

“**Fiscal Agency Agreement**” has the meaning given to it in the preamble to these Conditions;

“**Fiscal Agent**” has the meaning given to it in the preamble to these Conditions;

“**Group**” means the Issuer and its subsidiaries;

“**Holder**” has the meaning given to it in Condition 1(a);

“**IA Determination Cut-Off Date**” means the day falling no later than five Business Days prior to the Reset Determination Date;

“**Independent Adviser**” means an independent financial institution of international repute or other independent financial adviser with appropriate experience in the international debt capital markets, in each case appointed by the Issuer at the Issuer’s expense;

“**Initial Fixed Interest Rate**” has the meaning given to it in Condition 5(c);

“**Initial Fixed Rate Interest Period**” means the period from (and including) the Issue Date to (but excluding) the Reset Date;

“**Interest Payment Date**” means 15 July in each year, starting on (and including) 15 July 2020;

“**Interest Period**” means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

“**Interest Rate**” means the Initial Fixed Interest Rate and/or the Reset Rate of Interest, as the case may be;

“**Issue Date**” means 15 July 2019, being the date of the initial issue of the Notes;

“**Issuer**” means OTP Bank Nyrt., with its registered head office as at the Issue Date at Nádor utca 16, 1051 Budapest, Hungary and registration number Cg 01-10-041585;

“**Margin**” means 3.20 per cent.;

“**Market**” means the EEA Regulated Market of the Luxembourg Stock Exchange;

“**Maturity Date**” has the meaning given to it in Condition 6(a);

“**Noteholder**” has the meaning given to it in Condition 1;

“**Notes**” has the meaning given to it in the preamble to these Conditions;

“**Official List**” means the official list of the Luxembourg Stock Exchange;

“**Qualifying Tier 2 Securities**” means securities issued directly by the Issuer that:

- (a) (other than in respect of, or in order to ensure, the effectiveness and enforceability of Condition 16(d)) have terms not materially less favourable to an investor than the terms of the Notes (as reasonably

determined by the Issuer in consultation with an investment bank or financial adviser of international standing (which in either case is independent of the Issuer) prior to the issue or, as appropriate, variation of the relevant securities), and, subject thereto, which (1) contain terms which comply with the then current requirements of the Competent Authority in relation to Tier 2 Capital; (2) provide for the same Interest Rate and Interest Payment Dates from time to time applying to the Notes; (3) rank at least *pari passu* with the ranking of the Notes; (4) preserve the obligations (including the obligations arising from the exercise of any right) of the Issuer as to redemption of the Notes, including (without limitation) as to timing of, and amounts payable upon, such redemption; (5) preserve any existing rights under these Conditions to any accrued interest or other amounts which have not been paid; (6) (other than as envisaged by Condition 16(d)) do not contain terms which provide for interest cancellation or deferral; and (7) (other than as envisaged by Condition 16(d)) do not contain terms providing for loss absorption through principal write down or conversion to ordinary shares; and

- (b) are (i) listed on the Official List and admitted to trading on the Market or (ii) listed on such other internationally recognised stock exchange, which is commonly used for the listing and trading of debt securities in the international bond markets, as selected by the Issuer; and
- (c) where the Notes which have been substituted or varied had a published rating from a Rating Agency immediately prior to their substitution or variation, each such Rating Agency has ascribed, or announced its intention to ascribe, an equal or higher published rating to the relevant Qualifying Tier 2 Securities;

“**Rating Agency**” means Moody’s Investors Service Cyprus Ltd or its successors;

“**Record Date**” has the meaning given to it in Condition 7(a);

“**Register**” has the meaning given to it in Condition 1(b);

“**Registrar**” has the meaning given to it in the preamble to these Conditions;

“**Regulatory Capital Requirements**” means at any time, any requirement contained in the laws, regulations, requirements, guidelines and policies of the Competent Authority, Hungary, the European Banking Authority or the European Parliament and/or Council then in effect in Hungary relating to capital adequacy and applicable to the Issuer and/or the Group;

“**Relevant Date**” means (i) in respect of any payment other than a sum to be paid by the Issuer in a Winding-Up of the Issuer, the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further surrender of the Certificate representing such Note being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such surrender, and (ii) in respect of a sum to be paid by the Issuer in a Winding-Up of the Issuer, the date which is one day prior to the date on which an order is made or a resolution is passed for the Winding-Up;

“**Relevant Jurisdiction**” means Hungary or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and/or interest on the Notes;

“**Relevant Nominating Body**” means, in respect of the Reset Reference Rate:

- (a) the central bank for euro, or any central bank or other supervisory authority which is responsible for supervising the administrator of the Reset Reference Rate (or of a benchmark which is used to determine the Reset Reference Rate); or

- (b) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of:
- (i) the central bank for euro; (ii) any central bank or other supervisory authority which is responsible for supervising the administrator of the Reset Reference Rate (or of a benchmark which is used to determine the Reset Reference Rate); (iii) a group of the aforementioned central banks or other supervisory authorities; or (iv) the Financial Stability Board or any part thereof;

“**Reset Date**” means 15 July 2024;

“**Reset Determination Date**” means, in respect of the Reset Period, the day falling two TARGET Business Days prior to the first day of the Reset Period;

“**Reset Period**” means the period from and including the Reset Date to but excluding the Maturity Date;

“**Reset Rate of Interest**” has the meaning given to it in Condition 5(d);

“**Reset Reference Banks**” means five leading swap dealers in the principal interbank market relating to euro selected by the Issuer in its discretion after consultation with the Agent Bank (which dealers shall each be independent of the Issuer);

“**Reset Reference Rate**” means in respect of the Reset Period:

- (a) the applicable annualised mid-swap rate for swap transactions in euro (with a maturity equal to five years) as displayed on the Screen Page at 11.00 a.m. (Central European Time) on the Reset Determination Date; or
- (b) if such rate is not displayed on the Screen Page at such time and date due to the occurrence, in the opinion of the Issuer, of a Benchmark Event, Condition 5(i) will apply and if a Successor Rate, failing which an Alternative Reference Rate and, in either case, an Adjustment Spread and any Benchmark Amendments are determined in accordance with such Condition on or before the Reset Determination Date, then the Reset Reference Rate will be the Successor Rate or Alternative Reference Rate (in each case reflecting the Adjustment Spread) on the Reset Determination Date, all as determined in accordance with Condition 5(i). If, in such circumstances, no Successor Rate or Alternative Reference Rate has been so determined or adopted, the Reset Reference Rate will be the mid-swap rate for swap transactions in euro (with a maturity corresponding to the Reset Period) which was last displayed on the Screen Page prior to the Reset Determination Date; or
- (c) if such rate is not displayed on the Screen Page at such time and, in the opinion of the Issuer, no Benchmark Event has occurred, Condition 5(i) will not apply and the Reset Reference Rate will be the Reset Reference Bank Rate (as defined below). If, in such circumstances, no Mid-Swap Quotations are provided, the Reset Reference Rate will be the mid-swap rate for swap transactions in euro (with a maturity equal to the Reset Period) which was last displayed on the Screen Page prior to the Reset Determination Date.

Where:

“**Mid-Swap Quotations**” means the arithmetic mean of the bid and offered rates for the annual fixed leg (calculated on a 30/360 day count basis) of a fixed for floating interest rate swap transaction in euro which (a) has a term commencing on the Reset Date which is equal to 5 years; (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the relevant swap market; and (iii) has a floating leg based on the 6-month EURIBOR rate (calculated on an Actual/360 day count basis);

“**Reset Reference Bank Rate**” means the percentage rate determined on the basis of the Mid-Swap Quotations provided by the Reset Reference Banks to the Agent Bank at or around 11:00 a.m. (Central European Time) on

the Reset Determination Date and rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards). If at least four quotations are provided, the Reset Reference Bank Rate will be the rounded arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two or three quotations are provided, the Reset Reference Bank Rate will be the rounded arithmetic mean of the quotations provided. If only one quotation is provided, the Reset Reference Bank Rate will be the rounded quotation provided;

“**Screen Page**” means Reuters screen page “ICESWAP2 / EURSFIXA”, or such other screen page as may replace it on Thomson Reuters or, as the case may be, on such other information service that may replace Thomson Reuters, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying comparable rates;

“**Resolution Authority**” means the National Bank of Hungary (*Magyar Nemzeti Bank*) or such other authority pursuant to Section 4 (8) of Act CXXXIX of 2013 on the National Bank of Hungary which is responsible for recovery and resolution of the Issuer (including, but not limited to, applying the Bail-In Tool) on an individual and/or consolidated basis;

“**Senior Creditors**” means (a) creditors of the Issuer who are unsubordinated creditors of the Issuer; and (b) creditors of the Issuer whose claims are or are expressed to be subordinated to the claims of other creditors of the Issuer (other than those whose claims are in respect of obligations which constitute, or would but for any applicable limitation on the amount of such capital, constitute, Tier 1 Capital or Tier 2 Capital or whose claims rank or are expressed to rank *pari passu* with, or junior to, the claims of Holders in respect of the Notes);

“**Successor Rate**” means a successor to or replacement of the Reset Reference Rate which is formally recommended by any Relevant Nominating Body;

“**Supervisory Permission**” means, in relation to any action, such supervisory permission (or, as appropriate, waiver) as is required therefor under prevailing Regulatory Capital Requirements (if any);

“**TARGET Business Day**” means a day on which the TARGET System is operating;

“**TARGET System**” means the Trans European Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto);

“**Tax Event**” is deemed to have occurred if, as a result of a Tax Law Change, in making any payments on the Notes, the Issuer has paid or will or would on the next payment date be required to pay Additional Amounts and the Issuer could not avoid the foregoing by taking measures reasonably available to it;

“**Tax Law Change**” means a change in, or amendment to, the laws or regulations of a Relevant Jurisdiction, including any treaty to which such Relevant Jurisdiction is a party, or any change in the application of official or generally published interpretation of such laws, including a decision of any court or tribunal, or any interpretation or pronouncement by any relevant tax authority that provides for a position with respect to such laws or regulations that differs from the previously generally accepted position in relation to similar transactions, which change or amendment (x) (subject to (y)) becomes effective on or after the Issue Date, or (y) in the case of a change, if such change is enacted, on or after the Issue Date;

“**Tier 1 Capital**” has the meaning given to it from time to time by the Competent Authority or the applicable prudential rules;

“**Tier 2 Capital**” has the meaning given to it from time to time by the Competent Authority or the applicable prudential rules;

“**Transfer Agents**” has the meaning given to it in the preamble to these Conditions; and

“Winding-Up” means the ordering by any competent court for the liquidation (*felszámolás*) of the Issuer in accordance with Act XLIX of 1991 on Bankruptcy and Liquidation Proceedings of Hungary.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE REPRESENTED BY THE GLOBAL CERTIFICATE

The following is a summary of the provisions to be contained in the Fiscal Agency Agreement and in the Global Certificate which will apply to, and in some cases modify the effect of, the Conditions while the Notes are represented by the Global Certificate:

Initial Issue of Certificates

The Global Certificate will be registered in the name of a nominee (the “**Registered Holder**”) for a common depository for Euroclear and Clearstream, Luxembourg (the “**Common Depository**”) and may be delivered on or prior to the original issue date of the Notes.

Upon the registration of the Global Certificate in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the Global Certificate to the Common Depository, Euroclear or Clearstream, Luxembourg will credit each subscriber with a principal amount of Notes equal to the principal amount thereof for which it has subscribed and paid.

Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system (an “**Alternative Clearing System**”) as the holder of a Note represented by a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer to the holder of the Global Certificate and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Note for so long as the Notes are represented by the Global Certificate and such obligations of the Issuer will be discharged by payment to the holder of the Global Certificate in respect of each amount so paid.

Exchange of the Global Certificate

The following will apply in respect of transfers of Notes held in Euroclear or Clearstream, Luxembourg or any Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of the holding of Notes represented by the Global Certificate pursuant to Condition 2(a) may only be made in part:

- (i) if the Notes represented by the Global Certificate are held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or
- (ii) upon or following any failure to pay principal in respect of any Notes when it is due and payable,

provided that, in the case of the first transfer of part of a holding pursuant to paragraph (i) or (ii) above, the holder of the Notes represented by the Global Certificate has given the Registrar not less than 30 days’ notice at its specified office of such holder’s intention to effect such transfer. Where the holding of Notes represented by the Global Certificate is only transferable in its entirety, the Certificate issued to the transferee upon transfer

of such holding shall be a Global Certificate. Where transfers are permitted in part, Certificates issued to transferees shall not be Global Certificates unless the transferee so requests and certifies to the Registrar that it is, or is acting as a nominee for, Clearstream, Luxembourg, Euroclear and/or an Alternative Clearing System.

Calculation of Interest

For so long as all of the Notes are represented by the Global Certificate and such Global Certificate is held on behalf of Euroclear and Clearstream, Luxembourg, interest shall be calculated on the basis of the aggregate principal amount of the Notes represented by the Global Certificate, and not per Calculation Amount as provided in Condition 5.

Payments

All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which (notwithstanding Condition 7) shall be on the Clearing System Business Day immediately prior to the date for payment, where “**Clearing System Business Day**” means Monday to Friday inclusive except 25 December and 1 January.

Notices

For so long as the Notes are represented by the Global Certificate and such Global Certificate is held on behalf of Euroclear and Clearstream, Luxembourg, notices may be given to the Holders by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to their respective accountholders in substitution for publication as required by the Conditions provided that, for so long as the Notes are listed on the Luxembourg Stock Exchange or on any other stock exchange, notices will also be given in accordance with any applicable requirements of such stock exchange. Any such notices delivered to the Luxembourg Stock Exchange will also be published on its website *www.bourse.lu* for so long as its rules so require. Any notice shall be deemed to have been given on the date of delivery or publication which, in the case of communication through Euroclear and Clearstream, Luxembourg, shall mean the date on which the notice is delivered to Euroclear and Clearstream, Luxembourg.

Prescription

Claims against the Issuer in respect of any amounts payable in respect of the Notes represented by the Global Certificate will be prescribed after 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 18).

Meetings

For the purposes of any meeting of the Holders, the holder of the Notes represented by the Global Certificate shall be treated as being entitled to one vote in respect of each €1.00 in principal amount of the Notes.

Electronic Consent and Written Resolution

For so long as the Notes are in the form of a Global Certificate registered in the name of any nominee for one or more of Euroclear and Clearstream, Luxembourg or another clearing system, then, in respect of any resolution proposed by the Issuer:

- (i) where the terms of the proposed resolution have been notified to the Holder through the relevant clearing system(s), the Issuer shall be entitled to rely upon approval of such resolution proposed by the Issuer given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf

of the holders of not less than 75 per cent. in principal amount of the Notes outstanding (“**Electronic Consent**”). The Issuer shall not be liable or responsible to anyone for such reliance; and

- (ii) where Electronic Consent is not being sought, for the purpose of determining whether a written resolution has been validly passed, the Issuer shall be entitled to rely on consent or instructions given in writing directly to the Issuer, as the case may be, by (a) accountholders in the clearing system(s) with entitlements to such Global Certificate and/or, (b) where the accountholders hold any such entitlement on behalf of another person, the person identified by that accountholder as the person for whom such entitlement is held. For the purpose of establishing the entitlement to give any such consent or instruction, the Issuer shall be entitled to rely on any certificate or other document issued by, in the case of (a) above, Euroclear, Clearstream, Luxembourg or any other relevant Alternative Clearing System (the “**relevant clearing system**”) and, in the case of (b) above, the relevant clearing system and the accountholder identified by the relevant clearing system for the purposes of (b) above. Any resolution passed in such manner shall be binding on all Holders, even if the relevant consent or instruction proves to be defective. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear’s EUCLID or Clearstream, Luxembourg’s CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. The Issuer shall not be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

Euroclear and Clearstream, Luxembourg

References in the Global Certificate and this summary to Euroclear and Clearstream, Luxembourg shall be deemed to include references to any other clearing system approved for the purposes of the Notes by the Registrar.

USE OF PROCEEDS

The net proceeds from the issue of the Notes will be used by the Issuer for its general corporate purposes, which include making a profit, to strengthen the capital base of the Issuer and to optimise the composition of its own funds.

DESCRIPTION OF THE OTP GROUP'S BUSINESS

Introduction

The Issuer is an operating parent company of its corporate group. The OTP Group provides universal banking services through several domestic and foreign subsidiaries. In Hungary, traditional banking operations are performed by the Issuer while specialised services, including car leasing, mortgage lending and investment funds, are offered by the Issuer's subsidiaries. In addition to operating in Hungary, the OTP Group currently operates, through its subsidiaries, in nine further countries: Albania, Bulgaria, Croatia, Montenegro, Romania, Russia, Serbia, Slovakia and Ukraine. After the successful completion of the acquisitions announced in 2019, the OTP Group is expected to also have operations in Moldova and Slovenia. The Issuer currently has two representative offices (with non-banking activities, with the sole aim of representing and promoting the Issuer in the given country), one is located in Beijing, China, and the other one is located in Eschborn, Germany. As at 31 March 2019, the OTP Group provides financial services through 1,574 branches, agent networks and electronic channels. The OTP Group's total assets were close to EUR 50 billion as at 31 March 2019, out of which close to 45 per cent. was in Hungary. The next four largest foreign operations comprised 43 per cent. of the OTP Group's total assets (Bulgaria 22 per cent., Croatia 11 per cent., Romania 5 per cent. and Russia 5 per cent.). The Issuer's management believe the Issuer to be the market leader in terms of total assets in Hungary and Bulgaria, among the leading banking players in Croatia and among the largest consumer lending institutions in Russia.

History

The predecessor of the Issuer, the National Savings Bank (*Országos Takarékpénztár*), was established in 1949 as a nationwide, state-owned banking entity providing retail services in relation to bank accounts, savings accounts and loans. Its activities and the scope of its authorisation have gradually widened. It was initially authorised to enter into real estate transactions. Thereafter, its role was extended to provide domestic foreign currency accounts and foreign exchange services as well as banking services for Hungarian municipalities. In 1989, the National Savings Bank started operating as a universal commercial bank. In addition to continuing its previous retail and municipal activities, the National Savings Bank became authorised to offer services in respect of corporate loan accounts and deposits and to provide commercial loans and banking services for corresponding banking and export-import transactions.

In 1990, the National Savings Bank became a public company with a share capital of HUF 23 billion. Its name was changed to National Savings and Commercial Bank (OTP Bank Rt.). Subsequently, its non-banking activities were separated from it, along with their supporting organisational units. The state lottery was reorganised into a separate state-owned company and OTP Real Estate Ltd. was established as a subsidiary of the Issuer.

The Issuer's privatisation began in 1995. As a result of three public offerings accompanied by the listing of the Issuer's shares on the Budapest Stock Exchange, the state's ownership in the Issuer decreased to a single voting preference (golden) share. The law on abolishing the voting preference share of the state came into effect on 21 April 2007. Currently, the Issuer's ownership structure is dispersed with its shares mostly held by institutional (financial) and private investors.

After the completion of its privatisation, the Issuer started its international expansion, targeting countries in the CEE region, which were considered to offer economic growth potential similar to that of its domestic market.

The Issuer has completed several acquisitions during the period 2002-2007 becoming one of the key players in the CEE region. By the end of 2006, the Issuer operated in nine countries. During the period 2014-2016, the

OTP Group completed three further acquisitions to enhance its presence in markets where it was already present. Between December 2016 and the date of this Prospectus, the OTP Group completed four further acquisitions including commencing operations in Albania. In 2018 and 2019, the OTP Group announced four more acquisitions in the region and it is anticipated that these transactions will be completed during 2019. Please see “Description of the OTP Group’s business – Business Overview – History of recent acquisitions to date” below.

The following table sets out the total assets evolution of the OTP Group in the period between 1995 and 1Q 2019:

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total assets (EUR billion)	4.3	5.0	5.7	6.5	7.3	7.7	9.3	11.5	13.2	16.9	20.6	28.1	33.4
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	1Q 2019	
Total assets (EUR billion)	35.4	36.0	35.1	32.8	34.7	35	34.8	34	36	42.5	45.4	50.2	

The corporate name of the Issuer is OTP Bank Nyrt. The Issuer’s corporate name in English is OTP Bank Plc. The Issuer has its registered seat at Nádor utca 16., 1051 Budapest, Hungary, its telephone number is: +36 1 473 5000. It was founded on 31 December 1990 for an indefinite period of time and was registered with the Metropolitan Court of Budapest on 28 November 1991 as a company limited by shares (in Hungarian: *részvénytársaság*) under the registration number of Cg 01-10-041585. The Issuer’s Legal Entity Identifier (LEI) is 529900W3MOO00A18X956. The Issuer operates under Hungarian law, in particular, under Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (the “**Credit Institutions Act**”), Act CXX of 2001 on the capital markets (the “**Capital Markets Act**”) and Act CXXXVIII of 2007 on investment firms and commodity service providers and on the rules of their activities (the “**Investment Firms Act**”).

Shareholder Structure

The Issuer’s registered capital is HUF 28,000,001,000, divided into 280,000,010 dematerialised ordinary shares with a nominal value of HUF 100 each. The ordinary shares of the Issuer all have the same nominal value and bestow the same rights in respect of the Issuer. Ordinary shares of the Issuer are listed in Category “Equities Prime” on the Budapest Stock Exchange.

Ownership structure of the Issuer as at 31 March 2019

Description of owner	Total equity		
	31 March 2019		
	%	%(1)	Qty
Domestic institution/company	18.88	19.03	52,854,788
Foreign institution/company	59.38	59.85	166,253,560
Domestic individual	3.25	3.28	9,112,499
Foreign individual	0.08	0.08	227,137
Employees, senior officers	0.83	0.84	2,329,999
Treasury shares ⁽²⁾	0.80	0.00	2,233,521
Government held owner	0.08	0.08	219,372

Description of owner	Total equity		
	31 March 2019		
	%	% ⁽¹⁾	Qty
Domestic institution/company	18.88	19.03	52,854,788
International Development Institutions			
.....	0.05	0.05	129,795
Other ⁽³⁾	16.66	16.79	46,639,339
TOTAL	100.00	100.00	280,000,010

Notes:

- (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 OTP Bank Employee Stock Ownership Plan Organisation (“ESOP”). Pursuant to Act V of 2013 on the Civil Code, OTP shares held by the ESOP are not classified as treasury shares, but the ESOP must be consolidated in accordance with IFRS 10 Consolidated Financial Statements standard. On 31 March 2019, ESOP owned 1,732,972 OTP shares.
- (3) Non-identified shareholders according to the shareholders’ registry.

Source: OTP Bank Plc. - Summary of the first quarter 2019 results, Budapest, 10 May 2019

To the extent known by the Issuer, direct and/or indirect shareholders of the Issuer with over/around 5 per cent. stake as at 31 March 2019

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.....	20,228,951	7.22%	7.28%
OPUS Securities S.A.	14,496,476	5.18%	5.22%
Groupama Group	14,337,609	5.12%	5.16%

Notes:

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

Source: OTP Bank Plc. - Summary of the first quarter 2019 results, Budapest, 10 May 2019

Detailed information on the major shareholders of the Issuer as at 31 March 2019

MOL (Hungarian Oil and Gas Company Plc.)

MOL is one of the largest oil and gas companies in the CEE region and is headquartered in Budapest, Hungary. MOL is primarily engaged in the exploration and production of crude oil and natural gas, the refining of crude oil, wholesale and retail sales of refined petroleum products and the production and sale of petrochemicals. In addition, the MOL Group is involved in gas infrastructure services.

On 16 April 2009, the Issuer and MOL concluded a three-year share swap transaction, under which the Issuer has exchanged 24,000,000 ordinary shares in the Issuer for 5,010,501 “A series” MOL shares. As a result of the

transaction, MOL became a shareholder in the Issuer with 8.57 per cent. holding of ordinary shares. MOL has no representation on either the Board of Directors or the Supervisory Board of the Issuer.

As part of the transaction, both parties were granted call and put options to initiate the gross physical settlement of shares back to the respective issuer at any time on or before 11 July 2012. There is no compulsory settlement of shares at the maturity of the swap agreement. The swap agreement contains additional settlement provisions in case of certain movements in relative share prices of the parties subject to net cash or net share settlement, as set out in the swap agreement. In July 2012 and 2017, the maturity of the transaction was increased by five years on each occasion and, therefore, the amended final maturity of the swap agreement is 11 July 2022. Until such date, either party may initiate cash or physical settlement of the transaction, as set out in the swap agreement.

At the time of the transaction, due to the loss of control over the exchanged shares in the Issuer, the shares in the Issuer were derecognised from the balance sheet of the Issuer. At the same time, the written put option over the shares in the Issuer were accounted as a deduction from equity in the amount of HUF 55.5 billion, which was equal to the carrying value of the exchanged shares in the Issuer at the time of derecognition. The received MOL shares are not recognised in the balance sheet of the Issuer. In addition, the net present value of the transaction is accounted for in the balance sheet amongst Derivative financial instruments, which represented HUF 5.3 billion as at 31 March 2019.

Kafijat Ltd.

Kafijat Ltd. is a corporation registered in Hungary and has no representation on either the Board of Directors or the Supervisory Board of the Issuer.

OPUS Securities S.A. (OPUS)

In October 2006, OPUS, a special purpose vehicle set up as a securitisation vehicle incorporated in Luxembourg, issued the ICES, that were exchangeable into ordinary shares of the Issuer. The net proceeds from the issue of the ICES were used by OPUS to fund the purchase from the OTP Group of 14.5 million shares in the Issuer. Since the issue of the ICES, the effects of the transaction have been included in the consolidated financial statements of the Issuer. The Opus Transaction are recognised as Tier 2 in the consolidated regulatory capital of the Issuer in the amount of approximately HUF 90 billion as at 31 December 2018. According to CRR II, starting from 2022, the Opus Transaction cannot be taken into account in the consolidated regulatory capital of the Issuer. Shares in the Issuer held by OPUS are carried at historical cost and are deducted from the consolidated capital of the Issuer.

Groupama Group

In February 2008, an agreement was made between the Issuer and the French Groupama Group, with respect to the purchase by Groupama Group of a 100 per cent. shareholding in Garancia Insurance. This transaction boosted the OTP Group's profit and strengthened its capital position with a one-off revenue item of HUF 121.4 billion. As a part of the transaction, the Issuer and Groupama Group concluded a long-term cooperation agreement with each other regarding the cross-selling of financial and insurance products. In addition to this, Groupama Group appeared as a strategic owner among the shareholders of the Issuer with its significant 8 per cent. share and appointed one member to the Supervisory Board of the Issuer. In 2017, Groupama Group decreased its shareholding in the Issuer as part of its strategy to diversify its assets. Following the sale of shares representing approximately 3 per cent. of the Issuer's share capital, Groupama Group remained a significant shareholder of the Issuer and maintained its representation on the Supervisory Board of the Issuer.

Business Overview

Strategy

The strategic goal of the OTP Group is to become the most successful universal banking group in the CEE region. To reach this goal, OTP Group aims to be among the leading banks in most of the countries it operates in, except Russia and Ukraine being the exceptions due to their large size and perceived riskiness. After recent intense acquisition activity, the management expect that, in future years, their major task will be to consolidate and integrate the newly acquired assets, exploring operating and funding costs benefits, and intensifying cross-selling activity.

Please see the risk factor titled “*The OTP Group may be adversely affected by the risks associated with the integration of the OTP Group’s acquisitions in the CEE region*” for further details regarding the integration of recent acquisitions.

The basic pillars of OTP Group’s strategy are stability, profitability, growth and innovation:

Stability

The OTP Group will strive to preserve its safe capital and liquidity positions, to be able at all times to provide the conditions for stable operations and growth. Since its IPO in 1995, the Issuer has never raised equity, never received any state support, and has always comfortably relied on its organic capital generation capability. In addition, having dominant market positions in several countries it operates in, the OTP Group enjoys relatively strong deposit collection positions. Despite management focus on allocating liquidity for lending, the net loan-to-deposit ratio indicates that there is potential for further leverage in the consolidated balance sheet of the Issuer. The trust of customers provides a strong source of competitive funding. Since the financial crisis, one of the key considerations of the OTP Group’s business expansion is that all subsidiaries should be self-financed, meaning that they should rely almost entirely on their own deposit generation. The Issuer’s management believe that an important lesson from the 2008-2009 financial crisis is that most of the OTP Group’s business should be local currency based to avoid significant currency mismatches. In recent years, the Issuer has only tapped the covered bond markets for the sake of meeting local regulatory threshold requirements and not as a result of pressure on liquidity.

Throughout all of its operations, the OTP Group promotes transparency, prudence and full compliance with European and local regulations.

Profitability

The profitability of operations is a key precondition for continued growth. During the last few years, the consolidated ROE has exceeded the Issuer’s target of 15 per cent. which was set in 2015. In 2018, the OTP Group reached 18.7 per cent. ROE, which the Issuer’s management believe is competitive with that of its regional competitors. In 2018, the OTP Group posted approximately EUR 1 billion net profit.

Growth

The OTP Group believes in the future of the CEE region and is committed to actively contributing to its progress. Through offering its products and services, the OTP Group actively contributes to the growth of the CEE region, where the speed of economic expansion currently exceeds the EU average. The OTP Group aims to increase its share in all existing markets through organic growth and occasionally by acquisitions in new markets.

The OTP Group’s acquisition strategy is based on shareholder value creation by achieving economies of scale and applying the Issuer’s expertise in regional markets.

In 2018, the FX-adjusted net loan growth of the OTP Group was 15 per cent. In 2019, some moderation is expected in this organic growth rate, but the supporting operating environment, as well as the relatively low

penetration levels will remain the key drivers of organic loan portfolio growth. Recent acquisitions, when completed, are expected to add substantial volumes to the performing (Stage 1+2 under IFRS 9) loan book of the OTP Group.

Innovation

The OTP Group will continue to make efforts to develop convenient and modern services that are easier and faster to access and meet the challenges of the digital age and the expectations of its customers.

The OTP Group aims to design and operate the most user-friendly and reliable digital platforms. To achieve its ultimate goal, the OTP Group is investing significant resources to understand customer expectations and to adopt customer services to meet those expectations.

The OTP Group's digitalisation strategy is based on three pillars:

Simplicity and reliability

The precondition of digital channels' usage is that all current and potential customers can easily and reliably access the OTP Group's systems. This is supported by customer education and modular pricing. Many improvements are made during the development process to test the concepts. These continuous client prototype tests combined with mobile first method ensure easy usability of all digital channels. The main focus of newly introduced technologies is to create fast, fault-tolerant, flexible IT platforms.

Personalisation

Remote authentication solutions such as videochat or single-sign-on ensure cost saving opportunities for the Issuer and a seamless process for customers. With data integration, services become personalised and digital channels are adjusted to customers' characteristics. Functionality is a key element of the Issuer's digital services strategy. The OTP Group focuses on providing customers with financial control through dashboards and portfolio view.

Managed customer service

By creating interoperability between the channels, the Issuer aims to optimise and integrate the customer journey. The omni-channel operation ensures higher customer satisfaction and cost-effectiveness. Real-time analytical tools can help the Issuer optimise online journeys. Testing highly innovative tools such as chatbot banking – not only service and product innovations, but also channel innovations – is part of the development process.

In order to achieve the OTP Group's strategic goals, the following new digital products and services are being developed:

Remote channel developments

The complete renewal of the internet bank and mobile bank application is in progress. These two platforms provide the highest level of digital accessibility for customers. The purpose of the developments is to increase the number of customers using the channel and increase product usage and cross-selling.

Development of mobile payment applications: Simple wallet (Near Field Communication based mobile payment) is available for Android customers, as the first independent mobile payment solution in Hungary. The Issuer is also expecting to introduce a wallet service on further operating systems (e.g. iOS).

Further development of the video banking service is planned for 2019 in order to improve the customer experience.

branches, 4,608 automatic-teller-machines (“ATMs”) and 114,360 point-of-sales (“POS”) terminals were in operation group-wide.

Operating segments are divided by the Issuer’s management into business and geographical segments. The OTP Group’s operating segments are as follows: OTP Core (Hungary), Bulgaria (“**DSK Group**” or “**DSK**”), Russia (“**OTP Bank Russia**” or “**OBRu**”), Croatia (“**OBH**”), Ukraine (“**OTP Bank Ukraine**” or “**OBU**”), Romania (“**OTP Bank Romania**” or “**OBR**”), Serbia (“**OBSr**”), Montenegro (“**CKB**”), Albania (“**OTP Bank Albania**” or “**OBA**”), Slovakia (“**OBS**”), Leasing subsidiaries, which comprise the Hungarian leasing operation (“**Merkantil**”) and foreign leasing companies in Croatia, Bulgaria, Romania and Serbia (“**Foreign leasing companies**”), Asset Management in Hungary (“**OTP Fund Management**”) and foreign asset management subsidiaries (“**Foreign Asset Management Companies**”), Other subsidiaries and Corporate Centre.

Diversification of the OTP Group’s business

The OTP Group has traditionally been a commercial bank with a strong retail focus and the largest share of its business carried out in Hungary. In 2018, approximately 38 per cent. of the consolidated adjusted after-tax profit was generated in Hungary.

The following table sets out the consolidated after-tax profit breakdown by segment for the financial years ended 31 December 2018 and 31 December 2017, respectively:

	2017	2018	Change
	<i>(HUF million)</i>		<i>(%)</i>
Net profit for the year	281,339	318,322	13
Adjustments (total)	(2,732)	(7,014)	157
Consolidated adjusted net profit for the year	284,072	325,334	15
Banks total	265,422	308,831	16
OTP Core (Hungary)	168,576	180,445	7
Corporate Centre.....	195	6,189	3,074
DSK Group (Bulgaria).....	47,121	47,295	0
OTP Bank Russia.....	27,772	16,421	(41)
Touch Bank (Russia) ⁽¹⁾	(7,391)	—	(100)
OBH (Croatia)	17,107	24,960	46
OTP Bank Ukraine.....	14,120	24,414	73
OTP Bank Romania	3,035	3,850	27
OBSr (Serbia)	(2,905)	2,999	(203)
CKB (Montenegro).....	(156)	2,213	(1,519)
OBS (Slovakia).....	(2,051)	43	(102)
Leasing	9,836	9,828	0
Merkantil (Hungary)	8,260	7,437	(10)
Foreign leasing companies (Croatia, Bulgaria, Romania, Serbia)	1,576	2,391	52
Asset Management	8,678	4,159	(52)

	2017	2018	Change
	<i>(HUF million)</i>		<i>(%)</i>
OTP Fund Management (Hungary)	8,259	4,122	(50)
Foreign Asset Management Companies (Ukraine, Romania, Bulgaria).....	418	37	(91)
Other Hungarian Subsidiaries	(747)	1,601	(314)
Other Foreign Subsidiaries.....	295	388	31
Eliminations	587	526	(10)
Total adjusted net profit of HUNGARIAN subsidiaries ..	185,132	200,323	8
Total adjusted net profit of FOREIGN subsidiaries	98,940	125,012	26
Share of foreign profit contribution	35%	38%	3 pps

Notes:

- (1) By the end of 2017, Touch Bank was operating as a separate digital banking business line, although it was part of OTP Bank Russia, operating under the same banking license. In order to provide transparent information, Touch Bank was presented as a separate virtual entity. However, due to changes in governance and operation, the separation of Touch Bank is no longer justified. The performance of Touch Bank is presented from 2018 incorporated in OTP Bank Russia's performance. Until 2017, Touch Bank's performance was presented separately.

In terms of total assets, the four largest operations (OTP Core (Hungary), Bulgaria, Croatia and Romania), representing more than 80 per cent. of the OTP Group's consolidated total assets are in EU countries. In addition, the Slovakian subsidiary, represents approximately a 3 per cent. share in the OTP Group's consolidated total assets.

The following table sets out the consolidated total assets breakdown by country as at 31 December 2017, 31 December 2018, 31 March 2018 and 31 March 2019, respectively:

	2017	2018	Y/Y	1Q 18	1Q 19	Y/Y
Hungary	51%	50%	(1%)	52%	45%	(7%)
Bulgaria	15%	16%	1%	15%	22%	7%
Croatia	14%	13%	(1%)	13%	11%	(2%)
Romania.....	5%	5%	0%	5%	5%	0%
Russia	5%	5%	0%	5%	5%	0%
Serbia.....	4%	4%	0%	3%	4%	1%
Slovakia	3%	3%	0%	3%	3%	0%
Ukraine	2%	3%	1%	2%	3%	1%
Montenegro.....	2%	2%	0%	1%	1%	0%
Albania					1%	

The loan portfolio of the OTP Group is diversified in terms of geographies and products. The majority of loans are within Hungary. However, due to the recent acquisitions in Bulgaria and Albania, the portfolio has diversified further. The OTP Group's total combined exposure to Russia and Ukraine currently represents less

than 10 per cent. of the OTP Group's net loan portfolio. In terms of products, on a group wide basis, approximately 59 per cent. of net loans are to retail and micro and small sized enterprise ("MSE") customers.

The following table sets out the consolidated net loans breakdown by country and by product as at 31 December 2017, 31 December 2018, 31 March 2018 and 31 March 2019, respectively:

By countries	2017	2018	Y/Y	1Q 18	1Q 19	Y/Y
Hungary	42%	42%	1%	42%	38%	(4%)
Bulgaria	16%	16%	0%	16%	23%	7%
Croatia	16%	15%	(1%)	16%	13%	(3%)
Romania.....	7%	7%	0%	7%	6%	(1%)
Russia	6%	6%	0%	6%	6%	0%
Serbia.....	4%	5%	0%	5%	4%	(1%)
Slovakia	5%	4%	(1%)	4%	4%	0%
Ukraine	3%	3%	1%	3%	3%	0%
Montenegro.....	1%	2%	0%	1%	1%	0%
Albania	—	—	—	—	1%	—

By products	2017	2018	Y/Y	1Q 18	1Q 19	Y/Y
Mortgage	32%	30%	(3%)	32%	28%	(3%)
Consumer.....	23%	23%	(1%)	23%	23%	(1%)
MSE.....	7%	7%	0%	7%	8%	1%
Corporate.....	34%	37%	3%	34%	38%	4%
Car-financing.....	3%	4%	0%	4%	3%	0%

The following table sets out the net loans breakdown of the main segments and by product as at 31 December 2017, 31 December 2018, 31 March 2018 and 31 March 2019, respectively:

OTP Core + Merkantil	2017	2018	Y/Y	1Q 18	1Q 19	Y/Y
Mortgage	42%	38%	(4%)	41%	37%	(4%)
Consumer.....	11%	12%	0%	12%	12%	1%
MSE.....	7%	7%	0%	7%	7%	0%
Corporate.....	35%	39%	4%	35%	39%	3%
Car-financing.....	5%	5%	(1%)	5%	5%	(1%)

DSK	2017	2018	Y/Y	1Q 18	1Q 19	Y/Y
Mortgage	29%	29%	0%	28%	23%	(5%)
Consumer.....	35%	34%	(1%)	35%	28%	(8%)
MSE.....	6%	6%	0%	6%	9%	3%
Corporate.....	30%	32%	1%	31%	39%	8%
Car-financing.....	0%	0%	0%	0%	1%	1%

OBH	2017	2018	Y/Y	1Q 18	1Q 19	Y/Y
Mortgage	25%	25%	0%	25%	25%	0%
Consumer.....	28%	28%	0%	28%	28%	0%
MSE.....	3%	3%	1%	3%	3%	0%
Corporate.....	42%	42%	0%	42%	42%	0%
Car-financing.....	2%	2%	0%	2%	2%	0%

OBR	2017	2018	Y/Y	1Q 18	1Q 19	Y/Y
Mortgage	44%	43%	(1%)	44%	43%	(1%)
Consumer.....	11%	10%	(1%)	11%	10%	(1%)
MSE.....	14%	16%	2%	15%	16%	2%
Corporate.....	31%	31%	0%	31%	31%	1%
Car-financing.....	0%	0%	0%	0%	0%	0%

OBRu	2017	2018	Y/Y	1Q 18	1Q 19	Y/Y
Mortgage	2%	1%	(1%)	2%	1%	(1%)
Consumer.....	86%	86%	0%	85%	87%	1%
MSE.....	0%	0%	0%	0%	0%	0%
Corporate.....	12%	12%	1%	13%	12%	(1%)
Car-financing.....	0%	0%	0%	0%	0%	0%

OBU	2017	2018	Y/Y	1Q 18	1Q 19	Y/Y
Mortgage	10%	4%	(7%)	7%	3%	(4%)
Consumer.....	11%	16%	5%	12%	16%	5%
MSE.....	2%	6%	4%	5%	6%	0%
Corporate.....	69%	65%	(4%)	67%	65%	(2%)
Car-financing.....	8%	9%	2%	9%	10%	1%

Not only is the distribution of the existing OTP Group loan book diverse in terms of geography and product, the recent loan growth is also diverse in terms of geography and product which suggest there are no major changes in the business mix of the OTP Group. The completion of recent acquisitions may have some effect on the geographical split of total loans, but the completion of current acquisitions is not expected to cause a significant change to the OTP Group's overall product mix.

The following table sets out the breakdown of year-on-year changes of up to 90 days past due loans adjusted for FX changes by main segments and products as at 31 March 2019. At the OTP Group level, two columns are shown, the first (Including acquisitions effect) shows the year-on-year changes including the effects of the Bulgarian Expressbank (“**Expressbank**”) and Société Générale Albania acquisitions. The second (Excluding acquisitions effect) shows the year-on-year changes excluding the effects of the Expressbank and Société Générale Albania acquisitions. Similarly, for DSK Group, the first column includes the effects of the Expressbank acquisition. The second column excludes the effects of the Expressbank acquisition. At OTP Core the main contributor to mortgage loan growth are housing loans. The housing loan yearly growth was 11 per

cent. as at 31 March 2019. Home equity loans have been steadily decreasing (decreasing 10 per cent. year-on-year) as their amortisation exceeds new disbursements.

	OTP Group consolidated		OTP Core	DSK		OBRu	OBH	OBU	OBR	OBSr	CKB	OBS
	Incl. acquisition effect	Excl. acquisition effect		Incl. acquisition effect	Excl. acquisition effect							
Total loans	26%	14%	15%	76%	10%	23%	2%	28%	15%	32%	36%	0%
Consumer loans.....	23%	15%	20%	41%	8%	25%	1%	82%	1%	21%	4%	(1%)
Mortgage loans	13%	6%	4%	51%	14%		1%		10%	15%	11%	5%
Corporate and local government loans	38%	18%	24%	128%	7%	24%	3%	24%	24%	44%	70%	(4%)

The OTP Group's main source of funding is customer deposits, representing more than 88 per cent. of total liabilities (77 per cent. of total assets) as at 31 December 2018. The deposit base is granular and currently more than 60 per cent. are retail deposits.

The following table sets out the consolidated customer deposits breakdown by country and by product as at 31 December 2017, 31 December 2018, 31 March 2018 and 31 March 2019, respectively:

By countries	2017	2018	Y/Y	1Q 18	1Q 19	Y/Y
Hungary	53%	53%	0%	54%	49%	(5%)
Bulgaria	16%	17%	1%	16%	22%	7%
Croatia	14%	13%	(1%)	13%	11%	(3%)
Romania.....	3%	4%	1%	4%	4%	0%
Russia	4%	3%	0%	3%	3%	0%
Serbia.....	3%	3%	0%	3%	3%	0%
Slovakia.....	3%	3%	0%	3%	3%	(1%)
Ukraine	2%	2%	0%	2%	2%	0%
Montenegro.....	1%	2%	0%	1%	1%	0%
Albania					1%	

By products	2017	2018	Y/Y	1Q 18	1Q 19	Y/Y
Retail sight.....	27%	31%	3%	28%	30%	2%
Retail term.....	32%	29%	(3%)	32%	31%	0%
MSE.....	12%	13%	1%	12%	12%	0%
Corporate.....	29%	27%	(2%)	28%	27%	(2%)

The following table sets out the customer deposits breakdown of the main segments and by product as at 31 December 2017, 31 December 2018, 31 March 2018 and 31 March 2019, respectively:

OTP Core + Merkantil	2017	2018	Y/Y	1Q 18	1Q 19	Y/Y
Retail sight.....	30%	34%	4%	31%	34%	3%
Retail term.....	22%	21%	(2%)	22%	20%	(1%)
MSE.....	12%	13%	1%	13%	14%	1%

OTP Core + Merkantil	2017	2018	Y/Y	1Q 18	1Q 19	Y/Y
Corporate.....	35%	32%	(3%)	35%	32%	(2%)
DSK						
Retail sight.....	22%	24%	2%	23%	23%	0%
Retail term.....	58%	54%	(4%)	59%	53%	(6%)
MSE.....	9%	9%	0%	9%	7%	(2%)
Corporate.....	11%	12%	2%	10%	18%	8%
OBH						
Retail sight.....	30%	39%	9%	32%	42%	10%
Retail term.....	35%	28%	(7%)	34%	29%	(5%)
MSE.....	5%	7%	2%	6%	7%	1%
Corporate.....	29%	26%	(3%)	28%	22%	(5%)
OBR						
Retail sight.....	11%	11%	(1%)	11%	10%	0%
Retail term.....	38%	36%	(2%)	36%	36%	0%
MSE.....	26%	30%	4%	25%	31%	6%
Corporate.....	25%	24%	(1%)	28%	22%	(5%)
OBRu						
Retail sight.....	28%	24%	(4%)	27%	22%	(5%)
Retail term.....	43%	46%	3%	47%	47%	0%
MSE.....	11%	10%	(1%)	11%	10%	(1%)
Corporate.....	18%	21%	2%	15%	22%	7%
OBU						
Retail sight.....	13%	15%	2%	13%	15%	2%
Retail term.....	25%	25%	1%	25%	27%	1%
MSE.....	4%	6%	1%	4%	5%	1%
Corporate.....	58%	54%	(4%)	58%	53%	(4%)

The following table sets out the evolution of consolidated volume of OTP Group's subordinated debt, bilateral loans, senior bonds and mortgage bonds; and the evolution of consolidated net loans to deposits including retail bonds ratio in the period between 2008 and 1Q 2019, in EUR billions:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	1Q 2019
Subordinated debt (EUR billion).....	1.6	1.4	1.5	1.5	1.5	1.4	1.4	1.2	0.7	0.7	0.7	0.7

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	1Q 2019
Bilateral loans (EUR billion)	1.9	1.5	0.6	0.5	0.6	0.3	0.1	0.0	0.0	0.0	0.0	0.0
Senior bonds (EUR billion)	2.3	2.1	1.6	1.5	1.6	0.8	0.5	0.4	0.3	0.2	0.1	0.1
Mortgage bonds (EUR billion)	3.2	2.7	1.7	0.8	0.6	0.5	0.2	0.2	0.1	0.6	1.2	1.1
consolidated net loans to deposits including retail bonds ratio	127%	108%	110%	104%	95%	89%	75%	67%	67%	68%	72%	73%

Consolidated outstanding wholesale debt of the OTP Group has declined significantly since the 2008-2009 financial crisis. In 2008, the total share of wholesale funding within total assets was 25 per cent., of which close to EUR 7.3 billion equivalent was senior and covered debt, whereas the amount of consolidated subordinated debt was close to EUR 1.6 billion equivalent. In 2008, the OTP Group's consolidated net loans to deposits including retail bonds ratio was close to 127 per cent., whereas in 2016 this ratio was 67 per cent. and 73 per cent. as at 31 March 2019. The OTP Group issued debt securities before 2008 primarily to finance its acquisitions and also borrowed pursuant to syndicated loans from time-to-time. The liquidity generated by the OTP Group was used to finance its operations and to pay back its maturing wholesale obligations without issuing new debt. By the end of 2016, total consolidated wholesale debt was approximately EUR 1.2 billion, out of which EUR 0.7 billion was subordinated debt and EUR 0.5 billion equivalent senior and covered debt. Since 2016, the volume of mortgage bonds has increased primarily in order to comply with the Mortgage Funding Adequacy Ratio ("MFAR") requirement introduced by the MNB in 2016. Accordingly, by the end of March 2019, the volume of senior and covered debt had grown to EUR 1.2 billion. The volume of outstanding subordinated debt has remained at around EUR 0.7 billion since 2016.

The following table sets out the maturity profile of OTP Group's consolidated wholesale debt, in EUR million:

	2Q-4Q 2019	2020	2021	2022	2023	2024	2025	Perpetual
Subordinated debt (EUR million)	-	-	-	-	-	-	15	732
Bilateral loans (EUR million)	-	3	9	16	9	-	-	-
Senior bonds (EUR million)	28	51	21	15	4	6	-	-
Mortgage bonds (EUR million)	-	22	355	-	136	559	-	-

As at the date of this Prospectus, the OTP Group's maturity profile is considered by the Issuer's management to be relatively light, not just because of the relatively low amount of outstanding debt (close to EUR 2 billion in total as at the end of 2018), but due to its composition. The majority of the OTP Group's subordinated debt has no set maturity date.

The volume of issued securities by the OTP Group, comprising close to 2.9 per cent. of total assets as at 31 December 2018, increased by 67 per cent. year-on-year since 31 December 2017, mainly due to compliance with MFAR. As at 31 December 2018, approximately 91 per cent. of issued securities were mortgage bonds issued by OTP Mortgage Bank Ltd, a fully owned subsidiary of the Issuer under Act XXX of 1997 on mortgage credit institutions and mortgage bonds (the "Mortgage Credit Institutions Act") and the Credit Institutions Act. As these mortgage bonds are issued in HUF (approximately 98 per cent. of the OTP Group's issued securities are denominated in HUF) the remainder is denominated in USD. In 2018, OTP Mortgage Bank Ltd issued an estimated HUF 220 billion mortgage bonds to external counterparties, while the amount of

repurchased mortgage bonds amounted to HUF 52 billion. Since 31 December 2017, the Hungarian retail bond portfolio issued by the Issuer reduced by HUF 2 billion to HUF 5 billion.

The volume of the Issuer's subordinated debt, comprising approximately 0.6 per cent. of the OTP Group's total assets as at 31 December 2018, increased by 7 per cent. year-on-year since 31 December 2017. This increase was as a result of (i) the HUF value of the 2006 Notes (which had a consolidated nominal value of EUR 236.7 billion as at 31 December 2018) increased due to the Hungarian Forint weakening against the Euro, and (ii) a subsidiary in Ukraine receiving USD 17 million subordinated funding which matures in Q2 of 2025.

The Opus Subordinated Swap Agreement in connection with the ICES, are accounted for as equity instruments in the consolidated balance sheet, at a value of HUF 89.9 billion as at 31 December 2018. Please see the section of this Prospectus headed "*Description of OTP Group's Business - Detailed information on the major shareholders of the Issuer*" above for further information regarding regulatory capital treatment of the ICES.

The Issuer has the ability to redeem the 2006 Notes early at the Issuer's option subject to the terms of such notes and with prior regulatory approval. The Issuer also has the ability to terminate the Opus Subordinated Swap Agreement and redeem the ICES subject to the terms of those instruments and with prior regulatory approval. Please see the risk factor titled "*An investor assumes an enhanced risk of loss in the event of the Issuer's insolvency*" above for further details regarding the 2006 Notes and the Opus Subordinated Swap Agreement.

Distribution channels

As at 31 March 2019, the OTP Group provides financial services through 1,574 branches, agent networks and various electronic channels.

The following table sets out the number of branches and number of employees (in full-time equivalents) in the major segments as at 31 December 2017, 31 December 2018 and 31 March 2019, respectively:

	2017		2018		1Q 2019	
	Branches	Headcount (closing)	Branches	Headcount (closing)	Branches	Headcount (closing)
OTP Core (Hungary)	362	9,049	362	9,631	361	9,671
DSK Group (Bulgaria)	367	4,872	345	4,838	477	6,342
OTP Bank Russia (without employed agents)	134	4,956	134	5,052	134	5,121
Touch Bank (Russia)	0	356				
OTP Bank Ukraine (without employed agents)	85	2,224	87	2,313	87	2,256
OTP Bank Romania	96	1,163	95	1,273	95	1,308
OBH (Croatia)	196	2,430	144	2,397	145	2,031
OBS (Slovakia)	62	674	62	690	58	690
OBSr (Serbia)	157	2,103	154	1,996	154	2,015
OTP Bank Albania					35	431
CKB	29	429	28	419	28	425
Other Hungarian and foreign subsidiaries		860		924		829
OTP Group (without employed agents)		29,116		29,532		31,214
OTP Bank Russia - employed agents		5,771		5,306		5,060

	2017		2018		1Q 2019	
	Branches	Headcount (closing)	Branches	Headcount (closing)	Branches	Headcount (closing)
OTP Bank Ukraine - employed agents		747		760		731
OTP Group (aggregated)	1,488	35,633	1,411	35,599	1,574	36,909

Description of the main segments of the OTP Group

The following table sets out the total assets by main segments as at 31 December 2018, data are in HUF billion:

Segment	2018
OTP Core	8,563
DSK Group	2,381
OBH	1,837
OBR	772
OBRu	708
OBSr	590
OBS	454
OBU	391
CKB	225
OTP Fund Management	17
Leasing subsidiaries	605
Corporate Centre, Foreign Asset Management Companies and others	2,445

OTP Core (Hungary)

In terms of balance sheet totals, the Issuer is the largest bank in Hungary¹ and provides a full-scale service through its branch network, digital channels and network of sales agents. The core activities of the OTP Group in Hungary are performed by the Issuer and certain of its domestic affiliated entities (together “**OTP Core**”). OTP Core is an economic unit for measuring the result of core business activity of the OTP Group in Hungary. The financial information of OTP Core is calculated from the partially consolidated IFRS financial statements of certain companies² engaged in the OTP Group’s operations in Hungary. The consolidated accounting results of these companies are segmented into OTP Core and Corporate Centre. The Corporate Centre is a virtual entity. Through these OTP Group members, the OTP Core provides retail and corporate lending, account management, payment card, savings and investment services. Within its retail lending business line, the OTP Core offers residential and mortgage loans as well as consumer loans. The corporate business offers products and services to fulfil transactional, investment and credit needs of large corporate, MSE and municipal clients. Insurance

¹ Source: *The National Bank of Hungary – ‘Golden Book’ – Individual data of supervised institutions -2017*

² 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 Organisation, OTP Card Factory Ltd., OTP Facility Management Llc., MONICOMP Ltd. and OTP Real Estate Lease Ltd.

requirements of OTP Core clients are supplied by sales of insurance products via strategic collaboration with the French insurance Groupama Group, after its OTP Garancia acquisition in 2008.

The Issuer's management believe that OTP Group in Hungary is the market leader in all retail banking segments. The Issuer's management believe that its market share in total assets was 27 per cent., in retail lending 30 per cent., in retail deposits 37 per cent., in corporate loans 14 per cent., and in corporate deposits 20 per cent., as at 31 March 2019.

Asset management

OTP Fund Management, established in 1993, is a member of the OTP Group. OTP Fund Management has subsidiaries in Romania, Bulgaria, Croatia and Ukraine. OTP Fund Management is the market leading securities fund management company in Hungary with approximately EUR 3.3 billion assets under management as at 31 March 2019. It is managing more than 50 investment funds and 20 institutional portfolios. The Issuer's management believe that the market share of OTP Fund Management was 22.4 per cent. as at 31 March 2019.

While OTP Fund Management manages typical asset categories like money market funds, bond funds, balanced funds, equity funds, absolute return funds and capital protected funds, OTP Real Estate Investment Funds Ltd. (which is 100 per cent. owned by the Issuer) specialises in real estate investments. It manages approximately EUR 1.6 billion and its market share exceeds 32 per cent. as determined by the Issuer's management.

In 2018, the assets under management of BAMOSZ (Association of Hungarian Investment Fund and Asset Management Companies) members (without property funds) reduced by 11 per cent. year-on-year and by the end of December 2018 dropped to HUF 4,403 billion. Bond portfolios suffered an overall outflow and money market, equity and guaranteed funds experienced negative yields.

Leasing

OTP Group's leasing business incorporates Merkantil in Hungary (with around 19.5 per cent. market share as at December 2018 as determined by the Issuer's management) as well as its subsidiaries in Croatia, Bulgaria, Romania and Serbia. Through the recent acquisition of Société Générale's subsidiaries in the CEE/SEE region together with their leasing subsidiaries, the weight of leasing, in the medium term, is expected to increase. Merkantil's total assets comprised approximately HUF 416 billion as at 31 March 2019. The main products of Merkantil are 1) financing of passenger cars and light commercial vehicles to retail customers, individual entrepreneurs, companies and other organisations, sold primarily through intermediaries and also through direct banking sales channels; 2) vehicle fleet financing and operation to individual entrepreneurs, companies and other organisations, sold primarily through intermediaries and also through direct banking sales channels; 3) financing of equipment, including agricultural machinery, truck financing, IT financing to individual entrepreneurs, companies and other organisations.

Foreign subsidiaries

The Issuer started its regional acquisitions in Slovakia (IRB) in 2002, followed by Bulgaria (DSK Bank) in 2003, Romania (RoBank) in 2004, and Croatia (Novabanka) in 2005. In 2006, the Issuer made acquisitions in Serbia (Niska banka, Zepter banka Kulska banka), in Ukraine (Raiffeisen Bank Ukraine), in Russia (Investsberbank Group) and in Montenegro (CKB Bank). In 2007, OTP Bank Russia signed an agreement on the acquisition of Donskoy Narodny Bank. Total assets of the OTP Group increased significantly during this period and exceeded EUR 35 billion in 2008. The 2008-2009 financial crisis put a temporary break on acquisitions and acquisition activity resumed again in 2014. Throughout the financial crisis, the total assets of the OTP Group remained between EUR 32 billion and EUR 36 billion. The OTP Group purchased a smaller entity in Croatia (Banco Popolare Croatia) in 2014 and in Romania (Millennium Bank) in 2015. In 2016, the Issuer acquired the retail lending and savings and the corporate businesses of AXA Bank. The employees of AXA Bank were all transferred to the Issuer by 1 November 2016 within the framework of an employer's

succession. The migrated loan portfolio consisted of almost 100 per cent. of mortgage loans and the total volume was approximately HUF 177 billion.

A further wave of acquisitions commenced in 2016 as some banks decided to divest their non-core holdings in the CEE region (please see “*Description of the OTP Group’s business – Business Overview – History of recent acquisitions to date*” below). This new expansionary phase increased the total assets of the OTP Group from EUR 34 billion in 2015 to more than EUR 50 billion as at 31 March 2019.

In terms of total assets, the second largest operation within the OTP Group, after OTP Core, is the Bulgarian operation. The Issuer’s management believe that DSK, as a traditional incumbent bank, enjoys a favourable market position, especially after the purchase of Expressbank. The Issuer’s management believe that with this acquisition, the OTP Group’s market share in Bulgaria increased from 14.0 per cent. to 19.9 per cent. in terms of total assets, and that the Bulgarian operation is the largest bank in terms of total assets, retail deposits as well as retail loans in the local banking market.

The Issuer’s management believe that the Montenegrin CKB is a market leader in terms of total assets in Montenegro. However, due to the overall size of the Montenegrin market, CKB represents only approximately 1 per cent. of the OTP Group’s total assets as at 31 March 2019. With the conclusion of the acquisition of Société Générale banka Montenegro, the market share of the Montenegrin operation is expected to grow from 15.7 per cent. to close to 27.6 per cent. in terms of total assets.

With the acquisition of the Croatian Splitska banka d.d. (“**Splitska banka**”), the Issuer’s management believe that the market share of OBH increased from 4.8 per cent. to 11.2 per cent. in terms of total assets. At the same time, the Croatian operations became the third largest operation in the OTP Group, representing close to 11 per cent. share of total assets as at 31 March 2019.

OBR, the Romanian banking subsidiary, is the fourth largest operation in the OTP Group, and represented close to 5 per cent. of total assets as at 31 March 2019. The Issuer’s management believe that OBR’s market share in Romania is between 2 per cent. and 3 per cent. in terms of total assets, less than what the Issuer’s management considers optimal.

The Issuer’s management believe that OTP Bank Russia is a small player in Russia in terms of total assets, with a market share of less than 0.2 per cent. as calculated by the Issuer. However, the Russian subsidiary is mainly focused on retail consumer lending and the Issuer’s management believe that it is the third largest point-of-sale loan provider and sixth largest credit card business in Russia as at 31 March 2019.

The Issuer’s management believe that market share of the Serbian operations grew from 1.5 per cent. to 5.7 per cent. in terms of share from market total assets due to the acquisition of Vojvodjanska banka a.d. (“**Vojvodjanska banka**”). A much greater improvement is expected in the Serbian market position due to the completion of the acquisition of Société Générale Banka Srbija. Total market share in terms of assets is expected to grow from to 14.2 per cent.

The Slovakian operations represent approximately 3 per cent. of the OTP Group’s total assets as at 31 March 2019. The Issuer’s management believe that its market share in Slovakia is less than 2 per cent. in terms of total assets, which is less than what the Issuer’s management considers optimal.

The Ukrainian subsidiary also represents approximately 3 per cent. of the OTP Group’s total assets as at 31 March 2019. The Issuer’s management believe that its market share in the Ukraine is approximately 2 per cent. in terms of total assets.

The Albanian subsidiary operations represents 1 per cent. of the OTP Group’s total assets as at 31 March 2019. The Issuer’s management believe that it is the fifth biggest Albanian bank with a market share of approximately 6 per cent. as at 31 December 2018.

With respect to the other ongoing acquisitions, the Issuer's management believe that the Moldovan operations have a market share of approximately 13.8 per cent. in terms of total assets, and the Slovenian operations have a market share of approximately 8.5 per cent. (including the leasing business), which makes it the fourth largest banking operation in Slovenia in terms of total assets as at the end of 2018, as calculated by the Issuer.

In 2018, as well as in the first quarter of 2019, all foreign subsidiaries were profitable with the most significant contribution coming to the OTP Group's consolidated net profit from Bulgaria, Croatia, Ukraine and Russia. In addition, as a result of these various strategic acquisitions, the OTP Group's management believe that the OTP Group is approaching its strategic target of being in the top 3 to 5 position in all of the markets in which it operates, except Russia, Ukraine, Slovakia and Romania.

History of recent acquisitions to date

Since 21 December 2016, the Issuer has announced eight acquisitions in the CEE region, whereby the Issuer or its relevant local subsidiary agreed to the acquisition of the target entity and, in some cases, certain other exposures. In general, these acquisitions were undertaken to strengthen the OTP Group's market positions and potentially achieve benefits from synergies in the countries where it is already present and also to build presence in new regional markets (Albania, Moldova and Slovenia).

The following table sets out details of such acquisitions:

No.	Country of acquisition	Acquisition target	Share purchased in target bank	Seller banking group	Date of acquisition agreement	Date of financial closing	Gross loans net of provisions in HUF billion ⁽¹⁾
1	Croatia	Splitska banka d.d.	100%	Société Générale	20/12/2016	02/05/2017	631
2	Serbia	Vojvodjanska banka a.d., NBG Leasing d.o.o. and certain other exposures	100%	National Bank of Greece	04/08/2017	01/12/2017	266
3	Bulgaria	Societe Generale Expressbank AD	99.74%	Société Générale	01/08/2018	15/01/2019	774
4	Albania	Banka Societe Generale Albania SH. A.	100%	Société Générale	01/08/2018	29/03/2019	124
5	Serbia	Societe Generale Banka Srbija a.d.	100%	Société Générale	20/12/2018	in progress	652
6	Moldova	Mobiasbanca – Groupe Societe Generale S.A.	87.85%	Société Générale	06/02/2019	in progress	86
7	Montenegro	Societe Generale banka Montenegro a.d.	90.56%	Société Générale	28/02/2019	in progress	121
8	Slovenia	SKB Banka and its subsidiaries	99.73%	Société Générale	02/05/2019	in progress	785

Note:

- (1) Gross loans net of provisions in HUF billion are calculated from publicly available individual bank data as of November 2018 in case of Splitska banka d.d., March 2019 in case of Vojvodjanska banka a.d., Societe Generale Expressbank AD and Banka Societe Generale Albania SH. A. and December 2018 in case of Societe Generale Banka Srbija a.d., Mobiasbanca, Societe Generale banka Montenegro a.d. and SKB Banka using the then prevailing local currency to HUF exchange rate.

Acquisition no. 1, 2, 3 and 4 above have been completed. However, the remaining acquisitions are subject to obtaining all necessary regulatory approvals. Financial completion of acquisitions no. 5, 6, 7 and 8 in the above table is expected to be completed at various times during the course of 2019. The aggregated agreed purchase price in respect of acquisition no. 1 to 7 in the above table was close to the aggregated book value of the acquire assets. As for acquisition no. 8 the Issuer has not disclosed the purchase price or its relation to the book value of the asset.

The inclusion of Splitska banka into the Issuer’s consolidated financial statements commenced in May 2017. Therefore, eight months of Splitska banka net earnings were included in the Issuer’s consolidated profits in 2017. In respect of the acquisition of Serbian Vojvodjanska banka and certain other exposures, their inclusion into the Issuer’s consolidated financial statements commenced in December 2017. Therefore, one month of Serbian Vojvodjanska banka net earnings were included in the Issuer’s consolidated profits in 2017. The inclusion of Expressbank into the Issuer’s consolidated financial statements commenced in January 2019. In respect of the acquisition of the Albanian subsidiary the inclusion into the Issuer’s consolidated financial statements is expected to commence in April 2019, but the balance sheet was previously consolidated in Q1 2019.

Governmental, legal and arbitration proceedings

In its decision (VJ/18-341/2008.) delivered on 24 September 2009, the Gazdasági Versenyhivatal – Hungarian Competition Authority (“**GVH**”) imposed a total fine of HUF 1,922 million (approx. EUR 6 million) on 7 Hungarian banks and two card companies (Mastercard and Visa) for setting uniform interchange fees in transactions by payment cards of Visa and Mastercard (the so-called “MIF case”). The Issuer’s fine was HUF 281 million (approx. EUR 870 thousand).

The GVH’s decision as well as the judgment of the court of first instance which upheld the decision, were repealed by the court of second instance. On 9 March 2017, the final judgment obliged the GVH to reopen the case. The GVH however challenged the final judgment at the Kúria (extraordinary remedy). The Kúria, with a request lodged on 3 April 2018, requested a preliminary ruling of the Court of Justice of the European Union. At the date of this Prospectus, the Kúria has not yet delivered its judgment (C-228/18. Gazdasági Versenyhivatal v Budapest Bank Nyrt. and others).

The OTP Group may be a party to legal proceedings in the future. There can be no assurance that the OTP Group will not be subject to fines, damages or other penalties which could have a material adverse effect on the OTP Group’s business and financial position.

Credit ratings

The table below shows the ratings of the Issuer assigned by Moody’s Investors Service Cyprus Ltd (“**Moody’s**”), S&P Global Ratings Europe Limited (“**S&P Global**”) and Dagong Europe Credit Rating Srl (“**Dagong Global**”) as at the date of this Prospectus. Moody’s, S&P Global and Dagong Global are established in the European Union and are registered pursuant to the CRA Regulation.

Rating Agency	Class	Rating	
		Long term	Short term
Moody’s	Bank Deposits – Foreign Currency	Baa3 ⁽²⁾	Prime-3
	Bank Deposits – Local Currency	Baa2 ⁽¹⁾	Prime-2
	Counterparty Risk Rating – Local and Foreign Currency	Baa1	Prime-2
	Junior Subordinate – Foreign Currency	Ba3(hyb)	—
S&P Global	Issuer Credit Rating – Local and Foreign Currency	BBB- ⁽²⁾	A-3
	Resolution Counterparty Rating – Local and Foreign Currency	BBB	A-2
Dagong Global	Long term credit rating – Local and Foreign Currency	BBB+ ⁽²⁾	A-2

Note:

(1) Rating Under Review. Possible Upgrade.

(2) With Stable outlook.

FINANCIAL PERFORMANCE OF THE OTP GROUP

OTP Bank Plc. Consolidated Statement of Financial Position as at 31 December 2018 and 31 December 2017, respectively

	31 December 2018	31 December 2017
	<i>(in HUF million)</i>	
Cash, amounts due from banks and balances with the National Banks.....	1,547,272	1,198,045
Placements with other banks, net of loss allowance for placements	420,606	462,180
Financial assets at fair value through profit or loss	181,356	344,417
Securities at fair value through other comprehensive income.....	1,883,849	2,174,718
Loans at amortised cost and at fair value	8,066,593	6,987,834
Associates and other investments.....	17,591	12,269
Securities at amortised cost.....	1,740,520	1,310,331
Property and equipment	253,773	237,321
Intangible assets and goodwill	166,711	176,069
Investment properties	38,115	35,385
Derivative financial assets designated as hedge accounting	15,201	10,277
Deferred tax assets	20,769	29,419
Other assets	237,932	211,963
TOTAL ASSETS	14,590,288	13,190,228
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks.....	392,706	472,068
Deposits from customers.....	11,285,085	10,233,471
Liabilities from issued securities.....	417,966	250,320
Derivative financial liabilities held for trading	73,316	69,874
Derivative financial liabilities designated as hedge accounting.....	7,407	17,199
Deferred tax liabilities.....	6,865	9,271
Other liabilities.....	498,857	421,942
Subordinated bonds and loans.....	81,429	76,028
TOTAL LIABILITIES	12,763,631	11,550,173
Share capital.....	28,000	28,000
Retained earnings and reserves	1,864,204	1,671,879
Treasury shares.....	(67,999)	(63,289)
Non-controlling interest	2,452	3,465
TOTAL SHAREHOLDERS' EQUITY	1,826,657	1,640,055
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	14,590,288	13,190,228

Source: OTP Bank Plc. – Audited Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union as at, and for the year ended, 31 December 2018

OTP Bank Plc. Consolidated Statement of Profit or loss for the Year Ended 31 December 2018 and 31 December 2017, respectively

	2018	2017
	<i>(in HUF million)</i>	
Interest Income		
Loans.....	576,053	521,121
Placements with other banks.....	72,401	42,686
Amounts due from banks and balances with the National Banks	421	1,444
Securities at fair value through other comprehensive income.....	37,912	34,442
Securities at amortised cost.....	59,899	56,343
Other	11,272	10,479
Total Interest Income	757,958	666,515
Interest Expense		
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks.....	(47,979)	(46,475)
Deposits from customers.....	(69,387)	(50,995)
Liabilities from issued securities.....	(6,343)	(5,727)
Subordinated bonds and loans.....	(2,169)	(2,259)
Other	(7,357)	(7,303)
Total Interest Expense	(133,235)	(112,759)
NET INTEREST INCOME	624,723	553,756
Loss allowance on loans and placements.....	(39,287)	(40,848)
NET INTEREST INCOME AFTER LOSS ALLOWANCE ON LOANS AND PLACEMENTS	585,436	512,908
Income from fees and commissions.....	338,081	315,606
Expense from fees and commissions	(60,405)	(54,413)
Net profit from fees and commissions	277,676	261,193
Foreign exchange gains, net.....	40,615	21,870
Gains on securities, net	1,345	7,930
Gains on financial assets/liabilities measured at fair value through profit or loss	597	—
Dividend income	5,736	4,152
Release of loss allowance on securities at fair value through other comprehensive income and on securities at amortised cost	608	10
Other operating income.....	39,422	65,469
Other operating expense.....	(25,995)	(51,240)

	2018	2017
Net operating gain	62,328	48,191
Personnel expenses	(251,041)	(213,886)
Depreciation and amortisation	(51,475)	(48,988)
Goodwill impairment	(5,962)	(504)
Other administrative expenses	(264,803)	(236,072)
Other administrative expenses	(573,281)	(499,450)
PROFIT BEFORE INCOME TAX	352,159	322,842
Income tax expense	(33,837)	(41,503)
NET PROFIT FOR THE PERIOD	318,322	281,339
From this, attributable to:		
Non-controlling interest	89	197
Owners of the company	318,233	281,142
Consolidated earnings per share (in HUF)		
Basic	1,215	1,074
Diluted	1,215	1,074

Source: OTP Bank Plc. Audited Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the year ended 31 December 2018

Additional information on the OTP Group's performance in the period between 2011 and Q1 2019

	2011	2012	2013	2014	2015	2016	2017	2018	1Q 2019
ROE.....	6.1%	8.4%	4.2%	(7.4%)	5.1%	15.4%	18.5%	18.7%	15.9%
Adjusted ROE	11.8%	10.2%	9.6%	8.5%	9.6%	15.4%	18.7%	19.1%	19.8%
Total Revenue Margin.....	8.12%	8.31%	8.44%	7.74%	7.03%	6.79%	6.71%	6.33%	6.30%
Net Interest Margin	6.31%	6.40%	6.37%	5.96%	5.17%	4.82%	4.56%	4.30%	4.28%
Cost-to-asset ratio	3.76%	3.89%	4.07%	3.85%	3.66%	3.70%	3.68%	3.57%	3.44%
Cost / Income ratio	46.3%	46.8%	48.2%	49.8%	52.0%	54.4%	54.9%	56.3%	54.6%
Risk Cost Rate.....	2.95%	3.11%	3.51%	3.68%	3.18%	1.14%	0.43%	0.23%	0.24%
Leverage (average equity / average assets).....	13.6%	14.4%	14.8%	13.0%	11.7%	12.9%	12.7%	12.2%	12.0%

Additional information on the OTP Group's performance in 2018

OTP Group consolidated

	2017	2018	Change
	<i>(in HUF million)</i>		<i>%</i>
Main components of the Statement of recognised income			
Net profit for the year.....	281,339	318,322	13

	2017	2018	Change
	<i>(in HUF million)</i>		<i>%</i>
Adjustments (total)	(2,732)	(7,014)	157
Adjusted net profit for the year	284,072	325,334	15
Adjusted total income	804,945	881,726	10
Adjusted net interest income	546,654	599,831	10
Adjusted net profit from fees and commissions	209,428	220,732	5
Adjusted other net non-interest income without one-offs	48,863	61,163	25
Adjusted operating expenses	(441,786)	(496,817)	12
Total risk costs	(45,683)	(26,168)	(43)

	2017	2018	Change
	<i>(in HUF million)</i>		<i>%</i>
Main components of balance sheet, closing balances⁽¹⁾			
Total assets	13,190,228	14,590,288	11
Total customer loans (net, FX adjusted)	7,116,207	8,066,592	13
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

Note:

- (1) 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 period.

	2017	2018	Change
			<i>pps</i>
Indicators			
ROE	18.5%	18.7%	0.2
Adjusted ROE	18.7%	19.1%	0.4
Adjusted ROA	2.4%	2.3%	0.0
Total revenue margin	6.71%	6.33%	(0.38)
Net interest margin	4.56%	4.30%	(0.25)

	2017	2018	Change
			<i>pps</i>
Cost-to-asset ratio	3.68%	3.57%	(0.12)
Cost/income ratio	54.9%	56.3%	1.5
Risk cost rate	0.43%	0.23%	(0.20)
Net loan/(deposit+retail bond) ratio (FX adjusted)	68%	72%	3

The OTP Group posted its highest ever accounting and adjusted profit in 2018 shaped by a number of factors. On the back of the favourable macroeconomic performance of the CEE region, business activity received a further boost, and as a result, FX-adjusted performing loan volumes expanded by 15 per cent. year-on-year. Furthermore, credit quality improvements were achieved coupled with lower, or in certain cases, positive, annual risk costs. Higher core banking revenues realised on an increasing performing portfolio offset the negative impact of eroding margins induced by the low interest rate environment, tighter regulatory requirements and intensifying competition. Bottom line earnings received a meaningful lift from incorporating the full year profit in case of the Croatian and Serbian operations. In 2017, only eight months profit from Splitska banka and one month profit from Vojvodjanska banka supported the OTP Group's earnings.

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 was at 18.7 per cent. (+0.2 percentage points year-on-year), and the adjusted ROA (2.3 per cent.) remained virtually unchanged year-on-year.

During the course of the year ended 31 December 2018, total adjustment items decreased the profit by HUF 7 billion (after-tax), and the following is noted:

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

According to a decision by the Monetary Council on 21 November 2017, the Monetary Council introduced an unconditional interest rate swap (IRS) facility, with five and ten year maturities, and set the allocated amount at HUF 300 billion for the first quarter of 2018. Counterparty banks could access the IRS facility with regular tenders from the beginning of January 2018. In line with the fine-tuning of unconventional policy instruments affecting long-term yields, on 18 September 2018, the Monetary Council decided to phase out the IRS facility by the end of 2018. The Monetary Council set the annual maximum volume of the IRS facility for 2018 at HUF 1,100 billion.

By November 2018 the initial positive net present value ("NPV") gained on MIRS transactions was accrued for the whole maturity of MIRS transactions within the net interest income. In December 2018, MNB published guidelines, according to which those swaps were unconditional, and accordingly in MNB's opinion, there was no such binding criteria within the conditions that would require the accrual of NPVs.

Taking into consideration the MNB's guidelines, the Issuer decided to book the total initial positive NPVs in one lump sum within its profit and loss statements. As a result, in the adjusted profit and loss statements the total HUF 20.7 billion (before tax) gain realised in 2018 as a whole was presented in Q4 2018 within adjustment items on the NPV gain on the MIRS transactions.

The reported adjusted net interest income for the first three quarters of 2018 contained the accrued gains related to MIRS transactions for that period. In Q4 2018 that cumulated amount was recognised with a negative sign within net interest income in the adjusted income statement;

- in 2018, banking taxes paid by OTP Group members resulted in an after-tax negative impact of HUF 15.3 billion, including the Hungarian special tax on financial institutions and the Slovakian banking levy;
- HUF 4.7 billion (after-tax) negative impact due to tax shield related partly to the recognition or reversal of impairment charges booked in relation to investments in certain subsidiaries and there was also a goodwill write-off;
- HUF 6.8 billion negative earnings effect of acquisitions; and
- HUF 0.5 billion positive earnings impact related to the revision of the fine imposed by the Hungarian Competition Authority 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 the Issuer in August 2018 (HUF 1.435 billion). Simultaneously, the Issuer released provision set aside earlier for that purpose.

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

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

The 2018 profit contribution of foreign subsidiaries increased from 35 per cent. to 38 per cent. year-on-year.

Annual total income of the OTP Group increased significantly (+10 per cent. year-on-year, +6 per cent. without acquisition effect³). The annual operating profit improved by 6 per cent. year-on-year, whereas total risk costs dropped by 43 per cent.

Despite continuing margin erosion and intensifying competition, annual net interest income increased by 10 per cent. year-on-year (without acquisitions by 6 per cent.) due to the higher volumes of performing loans. Net fee and commission income grew by 5 per cent. compared to 2017 (+2 per cent. without acquisitions). The pace of its increase fell short of the business volume expansion and the reasons were mainly related to the Hungarian operations. Distribution fees on certain household targeted government bonds were reduced in several steps by the Government Debt Management Agency and fee income at OTP Fund Management dropped significantly year-on-year as a result of lower success fees.

Other net non-interest income increased by HUF 12.3 billion (+25 per cent. year-on-year) partially due to the consolidation of the full year contribution from Splitska banka and Vojvodjanska banka. In addition, FX-gains supported this line in a meaningful way.

Consolidated net interest margin was 5.17 per cent. in 2015, decreased to 4.82 per cent. in 2016 and to 4.56 per cent. in 2017. Year-on year consolidated net interest margin decrease in 2017 was the combined effect of net interest margins decreasing in all major segments: in case of OTP Core net interest margin decreased from 3.48 per cent in 2016 to 3.22 per cent. in 2017; in case of DSK net interest margin decreased from 4.60 per cent in 2016 to 3.85 per cent. in 2017; in case of OBRu net interest margin decreased from 17.81 per cent in 2016 to 16.91 per cent. in 2017; in case of OBH net interest margin decreased from 3.54 per cent in 2016 to 3.27 per cent. in 2017; in case of OBU net interest margin decreased from 9.02 per cent in 2016 to 7.46 per cent. in 2017; in case of OBR net interest margin decreased from 3.40 per cent in 2016 to 3.27 per cent. in 2017. In 2018 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 banka and Vojvodjanska

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

banka, as well as the year-on-year 8 per cent. devaluation of the Russian rouble against the Hungarian forint. The margin erosion of the 2018 annual NIM (4.30 per cent.) was only 7 basis points compared to the Q4 2017 level (i.e. lower than what management had indicated (“10-15 bps margin erosion compared to Q4 2017 NIM of 4.38 per cent.”)).

Consolidated operating expenses grew by 12 per cent. nominally year-on-year. Adjusted for the acquisition impact of Splitska banka and Vojvodjanska banka, the increase would be 8.2 per cent. year-on-year on an FX-adjusted basis. Despite all cost elements increasing, personnel expenses grew the most (+17 per cent. year-on-year, without acquisitions +12 per cent.) reflecting the 10 per cent. or above wage inflation in most of the relevant countries. In December 2018, a non-recurring one-off bonus amounting to one month base salary was paid to non-managerial employees of the OTP Group members in Hungary. This was partially offset by the 2.5 percentage points reduction of social and health care contributions to be paid by employers effective from January 2018. Amortisation costs increased at a lower rate by 4 per cent. year-on-year. Administrative expenses grew by 10 per cent. year-on-year (without acquisitions +3 per cent.) 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 per cent.

In 2018, consolidated FX-adjusted performing loan volumes surged by 15 per cent., more than HUF 1,000 billion year-on-year. It was positive that all OTP Group members and all credit segments posted volume increases.

With respect to the major credit segments, the biggest volume increase was posted in the large corporate segment (+20 per cent. year-on-year) followed by the MSE and consumer loan segment (+18 per cent. and +14 per cent., respectively). Performing mortgage volumes showed growth of 6 per cent. year-on-year.

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

At the end of 2018, the Group’s 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 more than 90 days past due (“DPD90+”) volume increase (adjusted for FX and the effect of sales and write-offs) remained favourable. Accordingly, in 2018 DPD90+ volumes grew by only HUF 24 billion against an increase of HUF 51 billion in the base period. The DPD90+ ratio dropped to 6.3 per cent. (a reduction of 2.9 per cent. year-on-year), resembling 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 per cent. (a reduction of 1.9 per cent. year-on-year). The consolidated risk cost rate was 0.23 per cent. versus 0.43 per cent. in the base period. According to IFRS 9, the volume of Stage 3 exposure at the end of 2018 comprised 8.6 per cent. of gross loans. Stage 2 exposures represented 6.8 per cent. of gross loans.

The following tables show additional financial information by main segments of the OTP Group, for the financial years ended 31 December 2017 and 31 December 2018, respectively:

OTP Core

	<u>2017</u>	<u>2018</u>	<u>Change</u>
	<i>(in HUF million)</i>		%
Main components of the Statement of recognised income			
Adjusted net profit for the year	168,576	180,445	7

	2017	2018	Change
	<hr/>	<hr/>	<hr/>
Adjusted total income	365,592	378,534	4
Adjusted net interest income	234,304	245,934	5
Adjusted net profit from fees and commissions	109,129	107,010	(2)
Adjusted other net non-interest income	22,159	25,590	15
Adjusted other administrative expenses	(214,758)	(233,956)	9
Total risk costs	30,783	46,591	51

	2017	2018	Change
	<hr/>	<hr/>	<hr/>
	<i>(in HUF million)</i>		<i>%</i>

Main components of balance sheet closing balances

Total Assets	7,704,135	8,563,425	11
Net customer loans (FX-adjusted)	2,651,784	3,096,391	17

	2017	2018	Change
	<hr/>	<hr/>	<hr/>
			<i>pps</i>

Indicators

ROE	12.3%	12.2%	(0.1)
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

OTP Fund Management (Hungary)

	2017	2018	Change
	<hr/>	<hr/>	<hr/>
	<i>(in HUF million)</i>		<i>%</i>

Main components of the Statement of recognised income

Adjusted net profit for the year	8,259	4,121	(50)
Adjusted total income	11,763	7,121	(39)
Adjusted net profit from fees and commissions	11,765	7,196	(39)
Adjusted other net non-interest income	(2)	(75)	3650
Adjusted other administrative expenses	(2,674)	(2,596)	(3)

Asset under management

Assets under management, total (w/o duplicates) ⁽¹⁾	1,519	1,035	(32)
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Note:

- (1) The cumulative net asset value of investment funds and managed assets of OTP Fund Management, eliminating the volume of own investment funds (duplications) being managed in other investment funds and managed assets of OTP Fund Management.

Merkantil (Hungary)

	2017	2018	Change
	<i>(in HUF million)</i>		<i>%</i>
Main components of the Statement of recognised income			
Adjusted net profit for the year	8,260	7,437	(10)
Adjusted total income	12,423	12,983	5
Adjusted net interest income	12,477	13,131	5
Adjusted net profit from fees and commissions .	(366)	(124)	(66)
Adjusted other net non-interest income	311	(24)	(108)
Adjusted other administrative expenses	(6,194)	(6,384)	3
Total risk costs	2,389	382	(84)

	2017	2018	Change
			<i>pps</i>
Indicators			
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)
ROE	29.4%	24.4%	(4.9)

DSK Group (Bulgaria)

	2017	2018	Change
	<i>(in HUF million)</i>		<i>%</i>
Main components of the Statement of recognised income			
Adjusted net profit for the year	47,121	47,295	0
Adjusted total income	108,290	107,817	0
Adjusted net interest income	72,257	69,979	(3)
Adjusted net profit from fees and commissions .	27,714	30,435	10
Adjusted other net non-interest income	8,319	7,403	(11)
Adjusted other administrative expenses	(46,830)	(50,720)	8

	<u>2017</u>	<u>2018</u>	<u>Change</u>
Total risk costs	(9,419)	(5,494)	(42)

	<u>2017</u>	<u>2018</u>	<u>Change</u>
			<i>pps</i>
Indicators			
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
ROE	20.0%	18.4%	(1.6)

OTP Bank Russia

By the end of 2017, Touch Bank was operating as a separate digital banking business line, although it was part of OTP Bank Russia, operating under the same banking license. In order to provide transparent information, Touch Bank was presented as a separate virtual entity. However, due to changes in governance and operation, the separation of Touch Bank is no longer justified. The performance of Touch Bank is presented from 2018 incorporated in OTP Bank Russia's performance. Until 2017, Touch Bank's performance was presented separately, so the below tables set out the performance measures of OTP Bank Russia without Touch Bank in 2017.

	<u>2017</u>	<u>2018</u>	<u>Change</u>
	<i>(in HUF million)</i>		<i>%</i>
Main components of the Statement of recognised income			
Adjusted net profit for the year	27,771	16,421	(41)
Adjusted total income	125,290	129,900	4
Adjusted net interest income	101,326	102,489	1
Adjusted net profit from fees and commissions .	22,975	26,767	17
Adjusted other net non-interest income	989	644	(35)
Adjusted other administrative expenses	(53,276)	(61,021)	15
Total risk costs.....	(36,730)	(47,844)	30

	<u>2017</u>	<u>2018</u>	<u>Change</u>
			<i>pps</i>
Indicators			
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
ROE	21.0%	10.9%	(10.1)

OBH (Croatia)

	2017	2018	Change
	<i>(in HUF million)</i>		<i>%</i>
Main components of the Statement of recognised income			
Adjusted net profit for the year	17,107	24,960	46
Adjusted total income	63,645	78,295	23
Adjusted net interest income	44,313	54,059	22
Adjusted net profit from fees and commissions .	12,604	16,042	27
Adjusted other net non-interest income	6,728	8,194	22
Adjusted other administrative expenses	(34,864)	(42,840)	23
Total risk costs.....	(7,932)	(4,857)	(39)

	2017	2018	Change
			<i>pps</i>
Indicators			
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
ROE	9.3%	9.6%	0.3

OTP Bank Ukraine

	2017	2018	Change
	<i>(in HUF million)</i>		<i>%</i>
Main components of the Statement of recognised income			
Adjusted net profit for the year	14,120	24,414	73
Adjusted total income	34,595	47,144	36
Adjusted net interest income	23,060	33,040	43
Adjusted net profit from fees and commissions .	9,716	11,443	18
Adjusted other net non-interest income	1,819	2,661	46
Adjusted other administrative expenses	(15,719)	(17,050)	8
Total risk costs.....	(1,802)	(920)	(49)

	<u>2017</u>	<u>2018</u>	<u>Change</u>
			<i>pps</i>
Indicators			
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
ROE	47.1%	55.6%	8.5

OTP Bank Romania

	<u>2017</u>	<u>2018</u>	<u>Change</u>
	<i>(in HUF million)</i>		<i>%</i>
Main components of the Statement of recognised income			
Adjusted net profit for the year	3,035	3,850	27
Adjusted total income	27,137	30,759	13
Adjusted net interest income	19,779	23,410	18
Adjusted net profit from fees and commissions .	3,063	3,563	16
Adjusted other net non-interest income	4,295	3,786	(12)
Adjusted other administrative expenses	(17,792)	(20,174)	13
Total risk costs	(5,394)	(5,684)	5

	<u>2017</u>	<u>2018</u>	<u>Change</u>
			<i>pps</i>
Indicators			
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
ROE	6.8%	7.5%	0.7

OBSr (Serbia)

	<u>2017</u>	<u>2018</u>	<u>Change</u>
	<i>HUF million</i>		<i>%</i>
Main components of the Statement of recognised income			
Adjusted net profit for the year	(2,905)	2,999	(203)
Adjusted total income	10,071	30,306	201
Adjusted net interest income	7,235	20,514	184
Adjusted net profit from fees and commissions .	2,275	7,285	220

	2017	2018	Change
	<i>HUF million</i>		<i>%</i>
Adjusted other net non-interest income	561	2,507	347
Adjusted other administrative expenses	(8,711)	(24,079)	176
Total risk costs.....	(4,374)	(3,090)	(29)

	2017	2018	Change
			<i>pps</i>
Indicators			
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
ROE	(9.5%)	3.7%	13.2

CKB (Montenegro)

	2017	2018	Change
	<i>HUF million</i>		<i>%</i>
Main components of the Statement of recognised income			
Adjusted net profit for the year	(156)	2,213	(1519)
Adjusted total income	9,709	10,729	11
Adjusted net interest income	6,543	7,529	15
Adjusted net profit from fees and commissions .	3,319	3,227	(3)
Adjusted other net non-interest income	(153)	(27)	(82)
Adjusted other administrative expenses.....	(7,907)	(8,125)	3
Total risk costs.....	(1,947)	(65)	(97)

	2017	2018	Change
			<i>pps</i>
Indicators			
90+ days past due loans/gross customer loans	31.3%	17.8%	(13.5)
Total provisions/90+ days past due loans.....	89.6%	101.0%	11.3
ROE	(0.7%)	7.3%	8.0

OBS (Slovakia)

	2017	2018	Change
	<i>HUF million</i>		<i>%</i>
Main components of the Statement of recognised income			
Adjusted net profit for the year	(2,051)	43	(102)
Adjusted total income	17,452	15,013	(14)
Adjusted net interest income	13,358	11,148	(17)
Adjusted net profit from fees and commissions .	3,627	3,535	(3)
Adjusted other net non-interest income	467	330	(29)
Adjusted other administrative expenses	(10,836)	(12,416)	15
Total risk costs.....	(8,436)	(2,498)	(70)
	2017	2018	Change
			<i>pps</i>
Indicators			
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
ROE	(7.6%)	0.2%	7.7

Additional information on the OTP Group's performance Q1 2019**OTP Group consolidated**

	1Q 2018	1Q 2019	Change
	<i>HUF million</i>		<i>%</i>
Main components of the Statement of recognized income			
Consolidated net profit.....	65,050	72,581	12
Adjustments (total)	(14,216)	(17,819)	25
Adjusted net profit for the period	79,266	90,400	14
Adjusted total income	206,335	239,716	16
Adjusted net interest income	143,614	162,670	13
Adjusted net profit from fees and commissions.....	49,579	57,223	15
Adjusted other net non-interest income without one-offs	13,142	19,823	51
Adjusted operating expenses	(113,505)	(130,958)	15

	1Q 2018	1Q 2019	Change
	<i>HUF million</i>		<i>%</i>

Main components of the Statement of recognized income

Total risk costs	(1,289)	(6,197)	381
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	1Q 2018	1Q 2019	Change
	<i>HUF million</i>		<i>%</i>

Main components of balance sheet, closing balances

Total assets	13,511,182	16,107,501	19
Total customer loans (net, FX adjusted).....	7,229,845	9,076,474	26
Total customer deposits (FX adjusted).....	10,595,274	12,402,053	17
Issued securities	258,602	381,911	48
Subordinated loans	75,266	81,201	8
Total shareholders' equity	1,592,448	1,870,102	17

	1Q 2018	1Q 2019	Change
			<i>pps</i>

Indicators

ROE	16.2%	15.9%	(0.3)
Adjusted ROE	19.7%	19.8%	0.1
Adjusted ROA.....	2.4%	2.4%	0.0
Total revenue margin.....	6.28%	6.30%	0.02
Net interest margin.....	4.37%	4.28%	(0.09)
Cost-to-asset ratio.....	3.46%	3.44%	(0.02)
Cost/income ratio	55.0%	54.6%	(0.4)
Risk cost rate.....	0.03%	0.24%	0.21
Net loan/(deposit+retail bond) ratio (FX adjusted)	68%	73%	5

The consolidated Q1 2019 balance sheet and profit and loss statement already incorporated the balance sheet of Expressbank and its subsidiaries purchased from Société Générale, as well as their three months earnings. In respect of the Albanian subsidiary, which was also purchased from Société Générale, only the balance sheet appeared in the OTP Group's Q1 2019 financial statements.

The Albanian acquisition was completed on 29 March 2019. Accordingly, the first quarter earnings of the Albanian subsidiary were not reflected in the consolidated profit and loss statement but were booked directly in the shareholders' equity of the OTP Group. As a result of the Albanian acquisition, consolidated total assets grew by HUF 218 billion, performing (DPD0-90) loans by HUF 121 billion and deposits by HUF 176 billion. The bank's net loan-to-deposit ratio was 70 per cent. Within the performing (DPD0-90) portfolio, the retail

book (the bulk of which is mortgage exposure) represented almost half of the total, 53 per cent. is corporate loans and the rest is MSE loans.

Q1 2019 consolidated accounting after-tax profit was HUF 72.6 billion (+12 per cent. year-on-year) compared with HUF 65 billion in Q1 2018. The accounting ROE was 15.9 per cent. (-0.3 percentage point year-on-year), whereas the adjusted ROE stood at 19.8 per cent.

The total volume of adjustment items (after-tax) in Q1 2019 had a negative impact of HUF 17.8 billion. The two material items were as follows:

- HUF 15.2 billion negative impact due to banking tax paid by the Hungarian and Slovakian subsidiaries (after-tax); and
- HUF 2.8 billion negative effect of acquisitions (after-tax). The following main items might appear on this line: the potential goodwill related to acquisitions which improves the accounting result, expenses related directly to the acquisitions and integration processes, and the volume of Day1 impairment under IFRS 9 booked after the consolidation of the Bulgarian and Albanian subsidiaries.

In Q1 2019, the OTP Group posted HUF 90.4 billion adjusted after-tax profit underpinning a 14 per cent. year-on-year increase. The profit already incorporated the net results of the Expressbank and its subsidiaries with HUF 5.2 billion. Adjusted for this, the year-on-year increase would be 8 per cent. The profit contribution of foreign subsidiaries increased from 46 per cent. to 50 per cent. year-on-year.

The effective tax rate decreased by 0.4 percentage point year-on-year to 11.2 per cent. Profit before tax was HUF 101.8 billion, +14 per cent. year-on-year, adjusted for the Expressbank and its subsidiaries, growth was 7 per cent.

Consolidated net interest margin was 4.29 per cent. in 4Q 2018, whereas net interest margin in the main segments was as follows: at OTP Core 2.98 per cent., at DSK 3.22 per cent., at OBRu 14.68 per cent., at OBH 2.88 per cent., at OBU 10.10 per cent. and at OBR 3.47 per cent. In 1Q 2019 the net interest margin decreased from 4.29 per cent in 4Q 2018 by 1 percentage points to 4.28 per cent., mainly due to the effect of consolidation of Expressbank and its subsidiaries. Without the acquisition the net interest margin would have grown by 4 basis points to 4.33 per cent., as calculated by the Issuer's management.

Operating expenses grew by 15 per cent. year-on-year. Adjusted for the Expressbank and its subsidiaries, FX-adjusted growth was 11 per cent. Costs were fuelled by IT and digital developments, as well as by wage inflation. In Hungary for the January-February period, financial sector wages increased by 10 per cent. year-on-year. Also, the average number of employees at OTP Core grew by 5 per cent. year-on-year.

Following the integration of Splitska banka in Croatia which completed in December 2018, cost developments reflected the cost synergy benefits. Operating expenses of OTP Bank Croatia were HUF 4.6 billion in 1Q 2018, whereas operating expenses for Splitska banka were HUF 6 billion. Adding these figures together and accounting for an additional HUF 0.5 billion inflation and FX-effect, the adjusted 1Q 2018 operating expenses of the two entities was approximately HUF 11.1 billion in 1Q 2018. After the integration, the operating expenses of OBH were HUF 9.6 billion in 1Q 2019, which translates into 13 per cent. year-on-year cost saving. The number of branches in Croatia decreased by 46 to 145 between March 2018 and March 2019, contributing to the cost saving. The ROE of the Croatian operation was 12.5 per cent. in 1Q 2019, with 19.2 per cent. CET1 ratio, which is believed to be high by the Issuer's management. The Issuer's management believe that with a more effective capital structure, assuming 15 per cent. CET1 ratio and 17.5 per cent. CAR, the ROE of the Croatian operation would have been 15.8 per cent. which is above the mid-term ROE target for the OTP Group.

Due to the shift to IFRS 9, from Q1 2019, the OTP Group started to display the FX-adjusted Stage 1 and 2 loan volumes changes to demonstrate business volume trends. However, in order to have comparable time periods,

the Issuer will show the FX-adjusted DPD0-90 volume developments until the end of 2019. Using the DPD0-90 performing category, organic growth would demonstrate a 14 per cent. year-on-year increase (FX-adjusted).

Regarding disbursement activity year-on-year, the Bulgarian (consumer and mortgage), the Ukrainian (consumer), the Croatian (cash loan), the Romanian (mortgage) and the Serbian and Montenegrin (corporate) lending activities were the strongest.

At the end of Q1 2019, the OTP Group's gross operative liquidity reserves comprised EUR 8.4 billion equivalent.

Stage 1 and Stage 2 loan volumes comprised HUF 8,959 billion, their ratio to total gross loans was 91.8 per cent., of which Stage 1 was 85.5 per cent. and Stage 2 was at 6.3 per cent., respectively.

By the end of Q1 2019, Stage 3 loan rate was 8.2 per cent. The own provision coverage of Stage 3 loans was 65 per cent. Without the effect of consolidation of Expressbank and its subsidiaries and the OBA, the own provision coverage of Stage 3 loans would have been 67.3 per cent. as at 31 March 2019. The Stage 3 volumes were netted off fully with the allocated provisions in the case of OBA and partially in the case of the Bulgarian Expressbank and its subsidiaries. The consolidated risk cost rate was 24 bps (2018 average: 23 bps).

The following tables show additional financial information by main segments of the OTP Group, for the periods ended 31 March 2018 and 31 March 2019, respectively:

OTP Core

	1Q 2018	1Q 2019	Change
	<i>HUF million</i>		<i>%</i>
Main components of the Statement of recognised income			
Adjusted net profit for the period.....	39,095	39,851	2
Adjusted total income.....	89,539	97,803	9
Adjusted net interest income.....	59,506	64,284	8
Adjusted net profit from fees and commissions.....	23,840	25,647	8
Adjusted other net non-interest income.....	6,193	7,872	27
Adjusted other administrative expenses.....	(51,578)	(60,361)	17
Total risk costs.....	6,505	6,635	2
	1Q 2018	1Q 2019	Change
			<i>%</i>
Main components of balance sheet closing balances			
Total Assets.....	8,037,659	8,750,863	9
Net customer loans (FX-adjusted).....	2,693,849	3,087,094	15

	<u>1Q 2018</u>	<u>1Q 2019</u>	<u>Change</u>
			<i>pps</i>
Indicators			
ROE	10.8%	10.3%	(0.5)
Stage 3 loans under IFRS 9/gross customer loans (%).....	9.0%	5.6%	(3.4)
Own coverage of Stage 3 loans under IFRS 9 (%).....		57.7%	
90+ days past due loans/gross customer loans (%)	6.2%	4.3%	(1.8)

OTP Fund Management (Hungary)

	<u>1Q 2018</u>	<u>1Q 2019</u>	<u>Change</u>
	<i>(HUF million)</i>		<i>%</i>
Main components of the Statement of recognised income			
Adjusted net profit for the period.....	1,074	1,001	(7)
Adjusted total income	1,698	1,647	(3)
Adjusted net profit from fees and commissions.....	1,701	1,404	(17)
Adjusted other net non-interest income.....	(3)	244	(8,233)
Adjusted other administrative expenses	(517)	(585)	13
Asset under management			
Assets under management, total (w/o duplicates) ⁽¹⁾	1,261	1,049	(17)

Note:

- (1) The cumulative net asset value of investment funds and managed assets of OTP Fund Management, eliminating the volume of own investment funds (duplications) being managed in other investment funds and managed assets of OTP Fund Management.

Merkantil (Hungary)

	<u>1Q 2018</u>	<u>1Q 2019</u>	<u>Change</u>
	<i>(HUF million)</i>		<i>%</i>
Main components of the Statement of recognised income			
Adjusted net profit for the period.....	1,648	1,727	5
Adjusted total income	3,269	3,446	5
Adjusted net interest income	3,098	3,466	12
Adjusted net profit from fees and commissions .	(30)	(60)	101
Adjusted other net non-interest income	202	40	(80)

	1Q 2018	1Q 2019	Change
	<i>(HUF million)</i>		<i>%</i>
Adjusted other administrative expenses	(1,484)	(1,561)	5
Total risk costs.....	(137)	(158)	15

	1Q 2018	1Q 2019	Change
			<i>pps</i>
Indicators			
Stage 3 loans under IFRS 9/gross customer loans	7.7%	3.8%	(4.0)
Own coverage of Stage 3 loans under IFRS 9.....		81.6%	
90+ days past due loans/gross customer loans	5.8%	2.8%	(2.9)
ROE	22.9%	18.3%	(4.6)

DSK Group (Bulgaria)

	1Q 2018	1Q 2019	Change
	<i>(HUF million)</i>		<i>%</i>
The Statement of recognised income			
Adjusted net profit for the period.....	11,258	17,346	54
Adjusted total income	26,930	36,895	37
Adjusted net interest income	17,927	25,251	41
Adjusted net profit from fees and commissions .	6,896	9,609	39
Adjusted other net non-interest income	2,107	2,036	(3)
Adjusted other administrative expenses.....	(11,484)	(16,739)	46
Total risk costs.....	(3,045)	(646)	(79)

	1Q 2018	1Q 2019	Change
			<i>pps</i>
Indicators			
Stage 3 loans under IFRS 9/gross customer loans	12.2%	7.8%	(4.4)
Own coverage of Stage 3 loans under IFRS 9.....		56.6%	
90+ days past due loans/gross customer loans	7.7%	4.7%	(3.0)
ROE	17.3%	15.2%	(2.2)

OTP Bank Russia

	<u>1Q 2018</u>	<u>1Q 2019</u>	<u>Change</u>
	<i>HUF million</i>		<i>%</i>
Main components of the Statement of recognised income			
Adjusted net profit for the period.....	7,205	6,641	(8)
Adjusted total income	31,539	33,946	8
Adjusted net interest income	25,213	26,334	4
Adjusted net profit from fees and commissions .	6,238	6,957	12
Adjusted other net non-interest income	89	655	637
Adjusted other administrative expenses	(15,123)	(14,871)	(2)
Total risk costs.....	(7,336)	(10,740)	46
	<u>1Q 2018</u>	<u>1Q 2019</u>	<u>Change</u>
			<i>pps</i>
Indicators			
Stage 3 loans under IFRS 9/gross customer loans	16.3%	15.0%	(1.3)
Own coverage of Stage 3 loans under IFRS 9.....		94.1%	
90+ days past due loans/gross customer loans	15.3%	14.1%	(1.1)
ROE	20.6%	17.1%	(3.5)

OBH (Croatia)

	<u>1Q 2018</u>	<u>1Q 2019</u>	<u>Change</u>
	<i>HUF million</i>		<i>%</i>
Main components of the Statement of recognised income			
Adjusted net profit for the period.....	7,718	8,236	7
Adjusted total income	18,187	19,239	6
Adjusted net interest income	13,166	13,078	(1)
Adjusted net profit from fees and commissions .	3,599	3,871	8
Adjusted other net non-interest income	1,422	2,290	61
Adjusted other administrative expenses	(10,611)	(9,633)	(9)
Total risk costs.....	1,598	487	(70)

	1Q 2018	1Q 2019	Change
			<i>pps</i>
Indicators			
Stage 3 loans under IFRS 9/gross customer loans	9.7%	7.7%	(2.0)
Own coverage of Stage 3 loans under IFRS 9.....		65.6%	
90+ days past due loans/gross customer loans	6.9%	5.6%	(1.3)
ROE	12.8%	12.5%	(0.3)

OTP Bank Ukraine

	1Q 2018	1Q 2019	Change
	<i>(HUF million)</i>		<i>%</i>
Main components of the Statement of recognised income			
Adjusted net profit for the period.....	5,833	8,294	42
Adjusted total income	9,399	14,896	58
Adjusted net interest income	6,118	10,575	73
Adjusted net profit from fees and commissions .	2,404	3,263	36
Adjusted other net non-interest income	877	1,058	21
Adjusted other administrative expenses.....	(3,505)	(4,694)	34
Total risk costs.....	1,047)	(201)	(119)

	1Q 2018	1Q 2019	Change
			<i>pps</i>
Indicators			
Stage 3 loans under IFRS 9/gross customer loans	37.9%	23.0%	(14.9)
Own coverage of Stage 3 loans under IFRS 9.....		8.2%	
90+ days past due loans/gross customer loans	25.1%	14.2%	(10.9)
ROE	68.2%	54.3%	(14.0)

OTP Bank Romania

	1Q 2018	1Q 2019	Change
	<i>(HUF million)</i>		<i>%</i>
Main components of the Statement recognised income			
Adjusted net profit for the period.....	1,504	1,231	(18)
Adjusted total income	6,629	8,579	29

	1Q 2018	1Q 2019	Change
	<i>(HUF million)</i>		<i>%</i>
Adjusted net interest income	5,112	5,996	17
Adjusted net profit from fees and commissions .	829	764	(8)
Adjusted other net non-interest income	689	1,819	164
Adjusted other administrative expenses	(4,735)	(6,118)	29
Total risk costs.....	72	(1,253)	(1,840)

	1Q 2018	1Q 2019	Change
			<i>pps</i>
Indicators			
Stage 3 loans under IFRS 9/gross customer loans	15.6%	9.8%	(5.9)
Own coverage of Stage 3 loans under IFRS 9.....		44.2%	
90+ days past due loan volume (in HUF million)	11.4%	4.8%	(6.6)
ROE	12.3%	6.6%	(5.7)

OBSr (Serbia)

	1Q 2018	1Q 2019	Change
	<i>(HUF million)</i>		<i>%</i>
Main components of the Statement of recognised income			
Adjusted net profit for the period.....	573	1,288	125
Adjusted total income	6,616	7,483	13
Adjusted net interest income	4,645	5,332	15
Adjusted net profit from fees and commissions .	1,589	1,714	8
Adjusted other net non-interest income	383	438	14
Adjusted other administrative expenses	(5,707)	(5,962)	4
Total risk costs.....	(346)	(239)	(31)

	1Q 2018	1Q 2019	Change
			<i>pps</i>
Indicators			
Stage 3 loans under IFRS 9/gross customer loans	10.2%	4.7%	(5.5)
Own coverage of Stage 3 loans under IFRS 9.....		62.8%	
90+ days past due loans/gross customer loans	9.3%	3.8%	(5.5)

	<u>1Q 2018</u>	<u>1Q 2019</u>	<u>Change</u>
			<i>pps</i>
ROE	3.1%	6.2%	3.1

CKB (Montenegro)

	<u>1Q 2018</u>	<u>1Q 2019</u>	<u>Change</u>
	<i>(HUF million)</i>		<i>%</i>
Main components of the Statement of recognised income			
Adjusted net profit for the period.....	688	695	1
Adjusted total income	2,374	2,802	18
Adjusted net interest income	1,717	1,959	14
Adjusted net profit from fees and commissions .	638	745	17
Adjusted other net non-interest income	19	97	417
Adjusted other administrative expenses.....	(1,968)	(1,991)	1
Total risk costs.....	367	(46)	(113)

	<u>1Q 2018</u>	<u>1Q 2019</u>	<u>Change</u>
			<i>pps</i>
Indicators			
Stage 3 loans under IFRS 9/gross customer loans	35.0%	19.3%	(15.7)
Own coverage of Stage 3 loans under IFRS 9.....		80.4%	
90+ days past due loans/gross customer loans	29.9%	16.4%	(13.6)
ROE	14.2%	7.3%	(6.9)

OBS (Slovakia)

	<u>1Q 2018</u>	<u>1Q 2019</u>	<u>Change</u>
	<i>(HUF million)</i>		<i>%</i>
Main components of the Statement of recognised income			
Adjusted net profit for the period.....	770	350	(55)
Adjusted total income	3,644	3,550	(3)
Adjusted net interest income	2,785	2,595	(7)
Adjusted net profit from fees and commissions .	794	864	9
Adjusted other net non-interest income	65	90	39
Adjusted other administrative expenses.....	(2,890)	(3,181)	10

	<u>1Q 2018</u>	<u>1Q 2019</u>	<u>Change</u>
	<i>(HUF million)</i>		<i>%</i>
Total risk costs.....	213	11	(95)

	<u>1Q 2018</u>	<u>1Q 2019</u>	<u>Change</u>
			<i>pps</i>
Indicator			
Stage 3 loans under IFRS 9/gross customer loans	11.4%	9.0%	(2.5)
Own coverage of Stage 3 loans under IFRS 9.....		71.1%	
90+ days past due loans/gross customer loans	9.4%	7.3%	(2.2)
ROE	12.1%	4.9%	(7.2)

Alternative Performance Measures

The Issuer considers each metric set out below to constitute an APM as described in the European Securities and Markets Authority Guidelines on Alternative Performance Measures (the “ESMA Guidelines”) published on 5 October 2015 by the European Securities and Markets Authority and which came into force on 3 July 2016. An APM should not be considered in isolation from, or as substitute for any analysis of, financial information presented in compliance with Financial Reporting Standards 102 (FRS 102).

- **Adjusted net profit for the year**

Definition: Net profit for the year as per the financial statements modified by adjustments determined by management.

Explanation: Provides additional information on profits for the period on an adjusted basis, in order to enable better comparability of profits of prior periods.

Reconciliation table:

	<u>OTP Group</u>	
	<u>2018</u>	<u>2017</u>
Net profit for the year	318,322	281,339
(+) Adjustments (total).....	(7,014)	(2,732)
Dividends and net cash transfers (after income tax).....	457	680
Goodwill/investment impairment (after income tax).....	(4,729)	(6,064)
Bank tax on financial institutions (after income tax).....	(15,286)	(15,233)
Effect of acquisitions (after income tax)	(6,844)	17,708
Impact of fines imposed by the Hungarian Competition Authority (after income tax)	565	177
Initial NPV gain on the monetary policy interest rate swap (MIRS) deals (after income tax)	18,823	—
Adjusted net profit for the year	325,334	284,072

- **Adjusted net interest income**

Definition: Net interest income before loss allowance on loans and placements as per the financial statements modified by adjustments determined by management.

Explanation: Provides additional information on net interest income for the period on an adjusted basis, in order to enable better comparability of net interest income of prior periods.

Reconciliation table:

	OTP Group	
	2018	2017
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 on net interest income	795	847
(-) Initial NPV gain on the monetary policy interest rate swap (MIRS) deals.....	20,685	—
Adjusted net interest income.....	599,831	546,654

- **Adjusted net profit from fees and commissions**

Definition: Net profit from fees and commissions as per the financial statements modified by adjustments determined by management.

Explanation: Provides additional information on net profit from fees and commissions for the period on an adjusted basis, in order to enable better comparability of net profit from fees and commissions of prior periods.

Reconciliation table:

	OTP Group	
	2018	2017
Net profit from fees and commissions	277,675	261,193
(+) Payment transaction duty	(56,958)	(51,770)

	OTP Group	
	2018	2017
(-) Effect of acquisitions net profit from fees and commissions	(14)	(5)
Adjusted net profit from fees and commissions.....	220,732	209,428

- **Adjusted other net non-interest income without one-offs**

Definition: Sum of foreign exchange gains (net), gain/loss on securities (net), other operating income and gain on financial assets/liabilities measured at fair value through profit or loss as per the financial statements modified by adjustments determined by management.

Explanation: Provides additional information on other non-interest income of the period on an adjusted basis, in order to enable better comparability of other non-interest income of prior periods.

Reconciliation table:

	OTP Group	
	2018	2017
Foreign exchange gains, net.....	40,616	21,870
Gain/loss on securities, net	1,344	7,930
Other operating income	39,422	65,471
Gains on financial assets/liabilities measured at fair value through profit or loss.....	597	—
(-) Revaluation result of FX positions hedging the revaluation of FX provisions.....	3,153	(4,350)
(-) Effect of acquisitions	34	32,393
(-) 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 non-interest expenses	(6,537)	(9,666)
(+) Change in shareholders' equity of companies consolidated with equity method	246	413
(-) 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	(630)	(1,200)

	OTP Group	
	2018	2017
earlier for these cases (accounted for on the Other provisions line) from 1Q 2017 at OTP Bank Romania.....		
(-) Presentation of the revaluation result of intra-group swaps on the net interest income line realized at the Romanian and Slovakian operations.....	(116)	(103)
Adjusted other net non-interest income (with one-offs)	60,046	49,727
(-) Revaluation result of the treasury share swap agreement (booked as Gain on securities, net (adj) at OTP Core).....	(1,117)	864
Adjusted other net non-interest income without one-offs.....	61,163	48,863

- **Adjusted total income**

Definition: Sum of adjusted net interest income, adjusted net profit from fees and commissions and adjusted other net non-interest income.

Explanation: Provides additional information of total income on an adjusted basis, in order to enable better comparability of total income of prior periods.

Reconciliation table:

	OTP Group	
	2018	2017
Adjusted net interest income	599,832	546,654
Adjusted net profit from fees and commissions	220,731	209,428
Adjusted other net non-interest income without one-offs	61,163	48,863
Adjusted total income	881,726	804,945

- **Adjusted operating expenses**

Definition: Other administrative expenses as per the financial statements modified by adjustments determined by management.

Explanation: Provides additional information of other administrative expenses on an adjusted basis, in order to enable better comparability of other administrative expenses of prior periods.

Reconciliation table:

	OTP Group	
	2018	2017
Other administrative expenses	(573,281)	(499,450)
(-) Goodwill impairment charges	(5,962)	(504)
(-) Effect of acquisitions	(9,805)	(3,725)

	OTP Group	
	2018	2017
(+) 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 non-interest expenses	(6,537)	(9,666)
(-) Special tax on financial institutions	(16,848)	(16,794)
(-) Tax deductible transfers (offset against corporate taxes)	(2,057)	(2,162)
(-) Financial Transaction Tax	(56,958)	(51,770)
(-) Impact of fines imposed by the Hungarian Competition Authority	(1,435)	—
Adjusted operating expenses.....	(496,817)	(441,786)

- **Adjusted provision for impairment on loan and placement losses**

Definition: Loss allowance on loans and placements as per the financial statements modified by adjustments determined by management.

Explanation: Provides additional information of loss allowance on loans and placements on an adjusted basis, in order to enable better comparability of other administrative expenses of prior periods.

Reconciliation table:

	OTP Group	
	2018	2017
Loss allowance on loans and placements.....	(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)	—
Adjusted provision for impairment on loan and placement losses.....	(19,283)	(31,058)

- **Return On Equity (“ROE”)**

Definition: Net profit for the year divided by average total equity (weighted monthly average of total equity is used in the calculation, calculated on

the basis of arithmetic averages of the opening and closing balances for each of the months in the period stated, weighed by the sum of days in the months).

Explanation: Provides additional information on financial performance and profitability of the bank, compared to its total equity.

Reconciliation table:

	OTP Group	
	2018	2017
Net profit for the year	318,322	281,339
Average total equity	1,703,881	1,518,599
ROE	18.7%	18.5%

- ***Adjusted ROE***

Definition: Adjusted net profit for the year divided by average total equity (weighted monthly average of total equity is used in the calculation, calculated on the basis of arithmetic averages of the opening and closing balances for each of the months in the period stated, weighed by the sum of days in the months).

Explanation: Provides additional information on financial performance and profitability of the OTP Group, compared to its total equity.

Reconciliation table:

	OTP Group	
	2018	2017
Adjusted net profit for the year	325,334	284,072
Average total equity	1,703,881	1,518,599
Adjusted ROE	19.1%	18.7%

- ***Adjusted Return On Assets***

Definition: Adjusted net profit for the year divided by average total assets (weighted monthly average of total assets is used in the calculation, calculated on the basis of arithmetic averages of the opening and closing balances for each of the months in the period stated, weighed by the sum of days in the months).

Explanation: Provides additional information on financial performance and profitability of the OTP Group, compared to its total equity.

Reconciliation table:

	OTP Group	
	2018	2017
Adjusted net profit for the year	325,334	284,072
Average total assets	13,933,485	11,996,517
Adjusted ROA	2.33%	2.37%

- **Total revenue margin**

Definition: Adjusted total income divided by average total assets (weighted monthly average of total assets is used in the calculation, calculated on the basis of arithmetic averages of the opening and closing balances for each of the months in the period stated, weighed by the sum of days in the months).

Explanation: Provides additional information on revenue generation of assets of the OTP Group.

Reconciliation table:

	OTP Group	
	2018	2017
Adjusted total income	881,726	804,945
Average total assets	13,933,485	11,996,517
Total revenue margin	6.33%	6.71%

- **Net interest margin**

Definition: Adjusted net interest income divided by average total assets (weighted monthly average of total assets is used in the calculation, calculated on the basis of arithmetic averages of the opening and closing balances for each of the months in the period stated, weighed by the sum of days in the months).

Explanation: Provides additional information on net interest generation of assets of the OTP Group.

Reconciliation table:

	OTP Group	
	2018	2017
Adjusted net interest income.....	599,831	546,654
Average total assets	13,933,485	11,996,517
Net interest margin.....	4.30%	4.56%

- **Cost-to-asset ratio**

Definition: Absolute value of Adjusted operating expenses divided by average total assets (weighted monthly average of total assets is used in the calculation, calculated on the basis of arithmetic averages of the opening and closing balances for each of the months in the period stated, weighed by the sum of days in the months).

Explanation: Provides additional information on operating efficiency of the OTP Group.

Reconciliation table:

	OTP Group	
	2018	2017
Adjusted operating expenses.....	(496,817)	(441,786)
Average total assets.....	13,933,485	11,996,517
Cost-to-asset ratio	3.57%	3.68%

- **Cost/income ratio**

Definition: Absolute value of Adjusted operating expenses divided by Adjusted total income.

Explanation: Provides additional information on operating efficiency of the OTP Group.

Reconciliation table:

	OTP Group	
	2018	2017
Adjusted operating expenses.....	(496,817)	(441,786)
Adjusted total income	881,726	804,945
Cost/income ratio	56.3%	54.9%

- **Risk cost rate**

Definition: Absolute value of adjusted provision for impairment on loan and placement losses divided by average gross loans (weighted monthly average of total assets is used in the calculation, calculated on the basis of arithmetic averages of the opening and closing balances for each of the months in the period stated, weighed by the sum of days in the months).

Explanation: Provides additional information on level of loss allowances compared to the size of the portfolio.

Reconciliation table:

	OTP Group	
	2018	2017
Adjusted provision for impairment on loan and placement losses.....	(19,283)	(31,058)
Average gross loans	8,262,996	7,157,212
Risk cost rate.....	0.23%	0.43%

- **Leverage (average equity/average assets)**

Definition: Average total equity divided by average total assets (weighted monthly average of total equity and total assets is used in the calculation, calculated on the basis of arithmetic averages of the opening and closing balances for each of the months in the period stated, weighed by the sum of days in the months).

Explanation: Provides additional information on the level of equity of the OTP Group compared to its total assets.

Reconciliation table:

	OTP Group	
	2018	2017
Average total equity	1,703,881	1,518,599
Average total assets.....	13,933,485	11,996,517
Leverage (average equity/average assets).....	12.2%	12.7%

- **Stage 3 ratio**

Definition: Stage 3 loans gross amount under IFRS9 divided by total gross loans less accrued interest receivables related to DPD90+ loans.

Explanation: Provides additional information on the loan portfolio.

Reconciliation table:

	OTP Group	
	2018	2017
Stage 3 loans gross amount.....	753,033	—
Gross customer loans	8,751,955	—
(-)Accrued interest receivables related to DPD90+ loans.....	32,613	—
Gross customer loans (adjusted)	8,719,342	—
Stage 3 ratio	8.6%	—

- **Own coverage of Stage 3 loans**

Definition: Loss allowance on Stage 3 loans divided by Stage 3 loans gross amount.

Explanation: Provides additional information on the loan portfolio and its provisioning.

Reconciliation table:

	OTP Group	
	2018	2017
Loss allowance on Stage 3 loans	502,667	—
Stage 3 loans gross amount.....	753,033	—
Own coverage of Stage 3 loans.....	66.8%	—

- **DPD90+ ratio**

Definition: Gross amount of loans overdue more than 90 days divided by total gross amount of loans less accrued interest receivables related to DPD90+ loans.

Explanation: Provides additional information on the loan portfolio.

Reconciliation table:

	OTP Group	
	2018	2017
Gross amount of loans overdue more than 90 days	551,498	707,211
Gross customer loans	8,751,955	7,726,631
(-)Accrued interest receivables related to DPD90+ loans	32,613	36,212
Gross customer loans (adjusted)	8,719,342	7,690,419
DPD90+ ratio.....	6.3%	9.2%

- **DPD90+ coverage**

Definition: Total amount of allowances for loan losses as per the financial statements less allocated provision on accrued interest receivables related to DPD90+ loans divided by the gross amount of loans overdue more than 90 days.

Explanation: Provides additional information on the loan portfolio and its provisioning.

Reconciliation table:

	OTP Group	
	2018	2017
Allowances for loan losses	(685,364)	(738,796)

	OTP Group	
	2018	2017
(-)Allocated provision on accrued interest receivables related to DPD90+ loans.....	(32,613)	(36,212)
Allowances for loan losses (adjusted).....	(652,751)	(702,585)
Gross amount of loans overdue more than 90 days	551,498	707,211
DPD90+ coverage.....	118.4%	99.3%

- ***Net loan-to-deposit ratio***

Definition: Loans at amortized cost and at fair value divided by total customer deposits without accrued interest liabilities on deposits from customers.

Explanation: Provides additional information on the proportion of loans and deposits.

Reconciliation table:

	OTP Group	
	2018	2017
Loans at amortized cost and at fair value.....	8,066,593	6,987,834
Total customer deposits without accrued interest liabilities on deposits from customers	11,273,241	10,218,796
Net loan-to-deposit ratio	71.6%	68.4%

- ***Net loans to deposits including retail bonds ratio***

Definition: Loans at amortized cost and at fair value divided by the sum of total customer deposits without accrued interest liabilities on deposits from customers and retail bonds.

Explanation: Provides additional information on the proportion of loans and deposits.

Reconciliation table:

	OTP Group	
	2018	2017
Loans at amortized cost and at fair value.....	8,066,593	6,987,834
Total customer deposits without accrued interest liabilities on deposits from customers	11,273,241	10,218,796
Retail bonds	4,732	6,500
Net loans to deposit including retail bonds ratio.....	71.5%	68.3%

All figures in the tables above are rounded and shown in HUF million.

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.

Capital management

The primary objective of the capital management of the OTP Group is to ensure prudent operations, to comply with the requirements of the regulator and to maximise shareholder value, accompanied by an optimal financing structure. The capital management of the members of the OTP Group includes the management and evaluation of shareholders' equity available for hedging risks, other types of funds to be recorded in the equity and all material risks to be covered by the capital.

The basis of the capital management of the OTP Group members in the short term is the continuous monitoring of their objective capital positions and strategic business planning, which includes monitoring of their capital position. The OTP Group members maintain capital adequacy as required by their respective regulatory bodies and any planned risk taking is carried out on the basis of ensuring and developing their profitability. If the planned risk level of an OTP Group member exceeds its core and the previously raised supplementary capital, it ensures the prudent operation by occasional measures. The Issuer also effects capital management through its dividend policy, and transactions performed with treasury shares.

The OTP Group uses the standard method for determining regulatory capital requirements with respect to credit risk and market risk.

From 31 December 2012, the OTP Group has been following the principle of "partial use" in calculating the consolidated capital requirement for operational risks based on the Advanced Measurement Approach ("AMA") methodology. The consolidated capital requirement for operational risks is calculated based on the AMA model approved by the MNB. The following subsidiaries are currently covered by the AMA: the Issuer, OTP Mortgage Bank Ltd., OTP Building Society Ltd., OTP Factoring Ltd., Merkantil, OTP Bank Ukraine, OTP Bank Russia, DSK, OBS, OBSr and CKB. The consolidated capital requirement for operational risks is the sum of the AMA capital requirement and the Basic Indicator Approach ("BIA") capital requirement calculated by those subsidiaries that do not fall under the AMA. The stand-alone capital requirement for operational risks regarding the Issuer and the subsidiaries covered by the AMA scope is allocated from the consolidated AMA capital requirement for operational risks. The OTP Group has a different type of insurance which aims to mitigate operational risk losses, but any AMA-compliance insurance or other risk transfer mechanisms are not applied in order to reduce the capital requirement for operational risk.

Regulatory capital and capital ratios

CRD IV and CRR transpose the global standards on banking regulation into the EU legal framework. The OTP Group has complied with the regulatory capital requirements throughout 2017 and 2018.

For international comparison purposes, the OTP Group calculated its regulatory capital based on IFRS data as adopted by the EU, and its consolidated capital adequacy ratio based on this in accordance with the regulations of Basel III.

The composition of consolidated regulatory capital and the capital ratios of the Issuer according to Basel III regulation implementation, based on IFRS financials and accounting scope of consolidation, are as follows:

Calculation on IFRS basis	2015	2016	2017	2018 ⁽¹⁾	1Q 2019 ⁽¹⁾
Capital adequacy ratio (%)	16.2%	16.0%	14.6%	18.3%	16.5%
Tier 1 ratio (%)	13.3%	13.5%	12.7%	16.5%	14.9%
Common Equity Tier 1 ratio (%)	13.3%	13.5%	12.7%	16.5%	14.9%

Calculation on IFRS basis	2015	2016	2017	2018 ⁽¹⁾	1Q 2019 ⁽¹⁾
Capital adequacy ratio (%)	16.2%	16.0%	14.6%	18.3%	16.5%
Capital adequacy ratio - fully loaded, including non-eligible profit less dividend (%)	16.4%	18.2%	17.3%	18.3%	16.5%
CET1 ratio - fully loaded, including non-eligible profit less dividend (%).....	13.5%	15.8%	15.3%	16.5%	14.9%
	<i>(in HUF billion)</i>				
Own funds	1,064	1,079	1,229	1,732	1,774
Tier 1 capital.....	873	911	1,063	1,565	1,608
Common Equity Tier 1 capital.....	873	911	1,063	1,565	1,608
Additional Tier 1 capital.....	0	0	0	0	0
Tier 2	191	168	166	167	166
Consolidated Risk Weighted Assets	6,576	6,730	8,390	9,489	10,769
Consolidated Risk Weighted Assets / Total Assets	62%	60%	64%	65%	67%

Note:

- (1) In 2018 and 1Q 2019, reported CET1 capital and therefore Tier 1 Capital as well as Own funds (and the ratios calculated therefrom) contain the profit for the period decreased by the dividend.

As at 31 December 2017 the consolidated Common Equity Tier 1 (“CET1”) ratio under IFRS (including the eligible net result less dividend) was 15.3 per cent. In 2018, this ratio increased in total by 1.2 percentage points, out of which 3.7 percentage points was due to organic capital generation, 1.7 percentage points decrease was due to organic growth (including the effects of risk weighted assets changes due to market risk), 0.7 percentage points decrease was due to dividend payment and 0.1 percentage points decrease was due to regulatory impact (including change of risk weight for sovereign exposure and IFRS 9 effect with the application of transitional rules).

As at 31 December 2018, the consolidated CET1 ratio under IFRS (including the eligible net result less dividend) was 16.5 per cent. In Q1 2019 this ratio decreased in total by 1.6 percentage points, out of which 1.1 percentage points was an increase due to organic capital generation, 2 percentage points decrease was due to acquisitions, organic growth (including the effects of risk weighted assets changes due to market risk) had no impact, 0.3 percentage points decrease was due to dividend payment and 0.3 percentage points decrease was due to regulatory impact (including effect of IFRS 16 implementation, change of risk weight for sovereign exposure and IFRS 9 effect with the application of transitional rules).

As at 31 March 2019, the Issuer’s consolidated CET1 ratio under IFRS (including the quarterly net result less dividend) was 14.9 per cent. For the purpose of incorporating the quarterly results into the calculation of regulatory capital, the Issuer conducted a review in case of the consolidated first quarter results. The eligible profit (interim profit less dividend) can be included in the regulatory capital Q1 2019. However, regarding the calculation of eligible profit for Q1 2019, the deducted dividend amount was determined in accordance with the Commission Regulation (EU) No. 241/2014. Accordingly, in the absence of a stated dividend policy, the amount of the dividend to be deducted should be calculated out of the previous three years’ average dividend payment ratio and that of the preceding year the higher ratio must be applied. The dividend amount must be calculated from the Issuer’s standalone accounting profit, and this must be deducted from the consolidated regulatory capital. This calculated dividend amount (HUF 28 billion) cannot be considered as an indication of

the management's dividend proposal, since the dividend proposal after the 2019 fiscal year will be decided by management in the first quarter of 2020.

Out of the six acquisitions announced since the beginning of 2018, the Bulgarian and Albanian acquisitions were completed in Q1 2019 and their capital impact was reflected in the consolidated Q1 2019 CET1 ratio. The expected CET1 ratio impact of the on-going Serbian, Moldavian, Montenegrin acquisitions, as well as the Slovenian acquisition announced on 3 May 2019, in total is 2.7 percentage points decrease. Consequently, if all these four acquisitions had already been included in the OTP Group as at the end of Q1 2019, the CET1 ratio would have been lower by such amount. Financial completion of these four ongoing acquisitions is expected to be completed at various times in 2019. For the purpose of incorporating the quarterly results into the calculation of the regulatory capital, the Issuer will have a review also in case of the consolidated Q2 2019 and Q3 2019 results.

OTP Group's mid-term CET1 ratio target is 15 per cent. and the Issuer's management intends to keep it within the range of 12 per cent. to 18 per cent.

At the end of 2018, the capital adequacy ratio of OTP Group under CRR was 18.2 per cent. which contains the profit for the 2018 financial year and the deduction of dividend payment for the 2018 financial year. The CET1 ratio at the end of 2018, calculated on the same basis, was 16.5 per cent.

At 31 March 2019, the capital adequacy ratio of the OTP Group under CRR was 16.5 per cent. which contains the eligible profit (interim profit less dividend). The CET1 ratio as at 31 March 2019 calculated on the same basis was 15.0 per cent.

The slight difference between the capital ratios based on IFRS financials and accounting scope of consolidation, and the capital ratios calculated under CRR, is due to the different scope of consolidation, as disclosed by the Issuer in the Disclosure by Institutions in line with the Credit Institutions Act and CRR II, the so-called Pillar III report.

The OTP Group consolidated regulatory capital requirements are measured against the capital levels calculated on the scope of consolidation according to CRR.

The leverage ratio under CRR was 7.5 per cent. in 2015, 7.7 per cent. in 2016, 9.3 per cent. in 2017 and 10.1 per cent. in 2018. This 10.1 per cent. compares to the 5.3 per cent. of the European Banks weighted average as published by EBA in its Risk Dashboard (data as of Q4 2018).

The following table sets out the Issuer's stand-alone and its subsidiary banks' capital adequacy ratios under local regulation, as at 31 December 2018.

	2018
OTP Bank Plc. stand-alone	28.2%
DSK	16.3%
OBRu	15.0%
OBH	20.0%
OBR	18.0%
OBSr	22.6%
OBS.....	16.6%
OBU	19.6%
CKB	22.7%

Capital requirements

The OTP Group's total capital regulatory minimum level including the Supervisory Review and Evaluation Process ("SREP") capital requirement was 13.2 per cent. at 31 March 2019, whereas the Tier 1 regulatory minimum level was 10.9 per cent. Since the OTP Group does not have any AT1 capital instruments, Tier 1 minimum requirement level applies to CET1 as well. The total capital requirement at the end of 2019 is forecast to be approximately 13.4 per cent. The Tier 1 requirement is forecast to be 11.1 per cent. and CET1 requirement is forecast to be 9.4 per cent. Forecasted requirements include 1.17 per cent. Pillar 2 requirements, which can be met proportionally with CET1, Tier 1 and Tier 2 capital, so Pillar 2 requirement composed of minimum 56 per cent. CET1, 19 per cent. Additional Tier 1 and 25 per cent. Tier 2. The SREP rate (the sum of Pillar 1 and Pillar 2 requirements divided by the Pillar 1 requirement) on the OTP Group set by MNB is 114.63 per cent. in 2019.

The capital requirement also includes 4.2 per cent. capital buffers, which need to be met by CET1. In Hungary capital conservation buffer is 2.5 per cent., systemic risk buffer is 0 per cent., other systemically important institutions ("O-SII") buffer: 1.5 per cent. and countercyclical buffer ("CCyB") is 0 per cent. In certain foreign subsidiary countries CCyB is already introduced, which have an impact on the consolidated buffer requirements. In Slovakia CCyB is 1.25 per cent. currently and expected to increase to 1.5 per cent. in August 2019. In addition, CCyB is expected to be introduced in Bulgaria in Q3 2019 with a level of 0.5 per cent., which is expected to increase to 1 per cent. in 2020. Therefore, on a consolidated basis the weighted CCyB is forecast at 0.2 per cent. for year-end 2019. Due to the increase of the O-SII buffer, the minimum levels are expected to increase by 0.5 per cent. in 2020 compared to the forecast levels as at the end of 2019.

As at the date of this Prospectus there are no binding EU level minimum leverage ratios in effect. In line with CRR II, the OTP Group envisages 3 per cent. to be its minimum level of leverage ratio.

Recent stress test

The Issuer was subject to the 2018 EU-wide stress test conducted by the European Banking Authority ("EBA"), in cooperation with the MNB, the ECB and the European Systemic Risk Board ("ESRB").

Under this stress test, out of 48 participants, the Issuer was ranked ninth in the CET1 ratio drawdown ranking and ranked sixteenth in the CET1 ratio ranking.

According to the stress test results, the fully loaded consolidated CET1 ratio of the Issuer would change to 15.8 per cent. under the baseline scenario and to 12.4 per cent. under the adverse scenario in 2020, compared to 14.9 per cent. as at the end of 2017 (including IFRS 9 implementation effect). In the 2018 EU-wide stress test, the CET1 ratio showed a decrease of 2.5 per cent. under the adverse scenario during the three-year time horizon (2018-2020), while in the 2016 EU-wide stress test the CET1 ratio decreased by 3.7 per cent. under the adverse scenario by the end of the three-year time horizon (2016-2018).

Minimum Requirement for own funds and Eligible Liabilities

The Resolution College of OTP Group, which consist of members of the resolution authorities of certain countries in which the OTP Group operates, is expected to set MREL requirement in the second half of 2019.

The requirement is expected to be set in accordance with the MREL Policy of MNB (acting as the resolution authority of the Issuer). The MREL Policy was first issued in November 2018. The Issuer decided to use the Single Point of Entry while meeting the requirements.

The binding requirement is expected to be introduced with a four-year transitional period starting from the communication of the MREL requirement from the MNB to the Issuer. In the transitional period, interim targets

are expected to be established. MNB monitors and assesses the progress of institutions in meeting the MREL requirement during the transition period at least once a year.

In 2019, only a group level requirement is expected to be established for the OTP Group and there will be no individual targets for members of the OTP Group.

The OTP Group expects that any incremental MREL issuance needs to be manageable even under the most conservative scenario and expects to meet the MREL requirements through CET1, Tier 2, senior non-preferred and senior liabilities. The share of different type of liabilities within total MREL eligible liabilities and potential financing needs in the 2019-2022 period and thereafter will depend on the level of the minimum requirement and that of the interim targets, including taking into consideration the effect of acquisitions.

FINANCIAL RISK MANAGEMENT

The OTP Group's "Strategy for Risk Assumption" sets out a framework for the most common types of risk (credit risk, country risk, operational risk, market risk, liquidity risk). The aim of the OTP Group is to handle strategic risk, reputational risk, and real-estate risk exclusively in accordance with the Strategy for Risk Assumption.

Furthermore, the Strategy for Risk Assumption is updated continuously, but at least every three years. The Board of Directors of the Issuer approved the current Strategy for Risk Assumption on 8 March 2019.

OTP Factoring was established in 1998 in Hungary. The Issuer's management believe that OTP Factoring is the largest debt management company in Hungary. The Issuer's Management Committee approved the OTP Group's current debt handling strategy in February 2011.

The following objectives were iterated by the Management Committee: (i) efficient enforcement of non-performing loans derived from the activities of the OTP Group; (ii) contribution to the enrichment of shareholders' value, profit optimisation, by making use of intra-group synergies, and the recovery of receivables; (iii) continuous improvement of competitive debt management know-how, processes and IT systems and application of cost-efficient debt management technology mix. In accordance with outlining these objectives in 2011, the concept of so-called "good bank-bad bank" separation was also determined. OTP Factoring became the entity responsible for managing collection activity across the OTP Group. By the end of 2011, seven (Bulgaria, Croatia, Montenegro, Romania, Serbia, Slovakia and Ukraine) foreign factoring companies were established. Since 2012, factoring companies employed approximately 800 employees, out of which more than half were employed in Hungary. Rather than selling non-performing assets at distressed prices on a large scale, the OTP Group decided to manage non-performing clients itself, which in the long term, has created value to the OTP Group. This approach has resulted in potentially higher non-performing loan levels as compared to its competitors who have taken the approach of selling non-performing loans on a large scale. Nevertheless, the OTP Group believes that investing in in-house collection capabilities results in value creation for its shareholders.

Credit risk

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

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

Credit risk classification

Before the introduction of IFRS 9 in 1 January 2018, the OTP Group classified risk into days-past-due (“**DPD**”) categories. The OTP Group presented the non-performing loan portfolio as loans where there was an overdue payment of more than 90 days. When determining the impairment, other information available to the OTP Group was also taken into consideration beyond just the delay of payment. When the OTP Group determined the results of the respective year, foreseeable risks and expected losses were also considered. Impairments and provisions were accounted for notwithstanding whether the result recognised in the respective year was a gain or loss. When calculating the impairment of the loans, the OTP Group applied the requirement of IFRS and the principles defined in the impairment policy of the OTP Group.

According to the requirements of the IFRS 9 standard (effective for annual periods beginning on or after 1 January 2018), the OTP Group currently classifies the financial assets measured at their amortised cost, at fair value through other comprehensive income and loan commitments and financial guarantees into the following stages:

- Stage 1 – performing assets without significant increase in credit risk since initial recognition;
- Stage 2 – performing assets with significant increase in credit risk since initial recognition but not credit impaired;
- Stage 3 – non-performing, credit-impaired assets; and
- POCI – purchased or originated credit impaired.

In the case of trade receivables, contract assets and lease receivables, the OTP Group applies the simplified approach and calculates only the lifetime expected credit loss.

A financial asset is allocated to Stage 1 where conditions specified in respect of Stage 2 and Stage 3 do not exist on the reporting date.

A customer or loan must be considered as in default if one or both of the following conditions occurs:

- if the customer delays payment for more than 90 days. This is a clear objective criterion; and
- there is the possibility that the customer will not satisfy all of its obligations. This condition is examined on the basis of probability criteria of default.

A financial asset is allocated to Stage 2 if any of the following conditions exist on the reporting date but which does not fulfil any of the conditions for the allocation to Stage 3:

- the payment delay exceeds 30 days;
- it has been classified as performing;
- based on an individual decision, its currency suffered a significant “shock” since the disbursement of the loan and no hedge position exists in respect of such asset;
- the transaction/customer rating exceeds a predefined value or falls into a determined range, or compared to the historic value it deteriorates to a predefined degree;
- in the case of retail mortgage loans, the loan-to-value ratio exceeds a predefined rate;

- default on another loan of the retail customer, if no cross-default exists;
- monitoring classification of corporate and municipal customers above different thresholds defined at OTP Group level including but not limited to:
 - the debtor experiencing financial difficulties;
 - a significant decrease of liquidity of the financial asset can be observed;
 - the rating of the customer reflects high risk but it is better than the default one;
 - a significant decrease in the value of the recovery from which the debtor would disburse the loan; and
 - clients under liquidation.

A financial asset is allocated to Stage 3 when any of the following conditions exists on the reporting date:

- defaulted (based on the OTP Group level default definition);
- it is classified as non-performing forbore (based on the OTP Group level forbore definition);
- the monitoring classification of corporate and municipal customers above different thresholds defined at OTP Group level, amongst other things:
 - breaches of contracts;
 - the debtor experiencing significant financial difficulties;
 - bankruptcy, liquidation, debt settlement processes against the debtor;
 - forced strike-off is commenced against the debtor;
 - termination of a loan contract by the Issuer;
 - occurrence of a fraud event; and
 - termination of the active market of the financial asset.

When loss allowance is calculated at exposures categorised into stages the following process is followed by stages:

- Stage 1: loss allowance at an amount equal to 12-month expected credit loss is recognised;
- Stage 2: loss allowance at an amount equal to lifetime expected credit loss is recognised; and
- Stage 3: loss allowance at an amount equal to lifetime expected credit loss is recognised.

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

An entity must measure expected credit losses of a financial asset in a way that reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date regarding past events, current conditions and forecasts of future economic conditions.

The following table set out the main risk indicators of the OTP Group:

	2016	2017	2018	1Q 2019
Risk cost rate (Provision for impairment on loan and placement losses (adjusted)/Average gross customer loans)	1.14%	0.43%	0.23%	0.24%
90+ DPD loan volume (in HUF billion)	976	707	551	572
90+ DPD loans/Gross customer loans	14.7%	9.2%	6.3%	5.9%
Total provision/90+ DPD loans ...	96.8%	99.3%	118.4%	119.2%

	1Q 2018	2Q 2018	3Q 2018	4Q 2018	1Q 2019
Stage 3 loan volume under IFRS 9 (in HUF billion)	961	942	848	753	800
Stage 3 loans under IFRS 9/gross customer loans (%).....	12.2%	11.1%	9.8%	8.6%	8.2%
Own coverage of Stage 3 loans under IFRS 9 (%).....				66.8%	65.0%

Asset liability management

Liquidity position

The primary objective of the OTP Group in terms of asset liability management is to ensure that the OTP Group's liquidity is maintained at a safe level.

Refinancing sources from the European Central Bank are available to the OTP Group (estimated at EUR 163 million as at 31 December 2018) and are currently unutilised.

As at 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. The available liquidity reserves of the Issuer have in the past permanently and significantly exceeded both the standard regulatory requirements and the potential liquidity needs calculated by the OTP Group's own internal model which considers the specific risk profile of the institution.

Due to governmental foreign exchange lending measures and following the conversion of various foreign currency denominated loans, the OTP Group's foreign exchange liquidity needs have considerably declined since 2015. As a result of the conversion of various cross-currency loans, the maturing long-term foreign exchange swaps entered into in connection with such loans were not refinanced.

The Issuer's foreign exchange liquidity reserves totalled EUR 709 million as at 31 December 2018.

The following table sets out the key liquidity risk indicators and their limits as of the end of 2017, 2018 and Q1 2019:

	Requirement	2017	2018	Q1 2019
Net stable funding ratio	—	145%	144%	—
Liquidity coverage ratio.....	>100%	208%	207%	201%

	<u>Requirement</u>	<u>2017</u>	<u>2018</u>	<u>Q1 2019</u>
Net loan to deposit ratio.....	—	68%	72%	73%

Interest rate risk

The interest-rate risk exposure of the OTP Group is determined primarily by the positions of the Issuer and OTP Mortgage Bank Ltd. Due to the HUF liabilities on the Issuer's balance sheet, which respond to yield changes to a moderate extent, the Issuer has an interest-rate risk exposure resulting from its business operations. The Issuer considers the reduction and closure 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, the OTP Group concluded monetary policy interest rate swap deals with the MNB totalling HUF 299 billion.

Market risk exposure of the OTP Group

The consolidated capital requirement of the trading book positions, the counterparty risk exposure and the foreign exchange risk exposure represented HUF 38.3 billion in total, primarily due to the capital requirement of the foreign exchange risk exposure.

The OTP Group is an active participant in the international foreign exchange and derivative markets. Open foreign exchange 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 OTP Group outside Hungary, except for the Bulgarian DSK (the EUR/BGN exposure of DSK under the current exchange rate regime does not represent real risk), were negligible in comparison with either the balance sheet total or the regulatory capital. Therefore, the group level foreign exchange risk exposure was concentrated at the Issuer.

The main foreign exchange risk exposure, in line with previous years' practice, is the strategic open foreign exchange position required to hedge the currency risk of the expected foreign currency denominated net earnings of the Issuer's main foreign subsidiaries. The Issuer has maintained this position since 2007. Since 2008, its size has remained constant at EUR 310 million. The revaluation result of the position is accounted for directly against the equity.

Operational risk management

Operational risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk. In many respects, operational risks are very diverse and different from conventional banking risks. Effective operational risk management requires participation and commitment of the entire organisation, and support from management is crucial in order to mobilise and involve the employees who are responsible for operational risk. As a result of strong management support, the OTP Group has a well-designed and trained internal expert network. The OTP Group places great importance on the training of this internal expert network.

The most important fundamental principles which the OTP Group follows with respect to operational risk management are summarised below:

- in order for operational risks to be adequately managed, a standardised, easily understood, and robust framework system must be put in place at OTP Group level, covering the definition of operational risks and the methods of identification, measurement, monitoring, management and mitigation of such operational risks;

- the operational risk management system must cover all risks inherent in the activities of the OTP Group, an operational risk toolset must be developed and updated according to changes and internal and external expectations;
- strong support of people within the OTP Group dealing with operational risk management;
- the Issuer's management body and the Operational Risk Committee must be informed on a regular basis of the prevailing operational risk exposure of the OTP Group and any potential and incurred losses arising from operational risks;
- the OTP Group strives for a high level of risk-awareness and must articulate its operational risk appetite;
- the OTP Group must have guidelines, processes and procedures to mitigate operational risks; and
- independent operational risk management activities must be fully integrated into the OTP Group's risk management activities and its general management information system.

Due to the changing operational environment, including technological developments, there are increased operational risks and reputational risks. The OTP Group maintains a comprehensive cyber security program with the necessary defence systems and solutions. The OTP Group is a prime target in terms of phishing attacks and partially DOS/DDOS attacks. The members of the OTP Group have the necessary capability to deal with these threats by contracting with relevant third-party providers and utilising IT solutions.

The OTP Group has a major focus on money-laundering prevention and compliance with sanction regimes in order to manage reputational, legal and financial risks stemming from compliance failure. The top priority for the OTP Group has been building strong internal controls, policies and systems, and a sound risk culture.

The OTP Group's insurance coverage is also used to manage operational risk. Members of the OTP Group have the following insurance cover:

- property damage insurance;
- liability insurance; and
- motor insurance,

in the form of local policies concluded individually by each member of the OTP Group.

As most insurance is managed locally, a group-level insurance framework has not been implemented. Members of the OTP Group are allowed to purchase additional local insurance cover. Insurance policies are renewed regularly. There is no current plan to terminate any of the existing insurance coverage. Current insurance policies are believed by the Issuer's management to be appropriate based on prevailing regulations and management decisions. There is no indication that insurance will not be available to the OTP Group on commercially reasonable terms.

To comply with GDPR, the Issuer launched a group wide project, including members of the OTP Group in Hungary and in other EU member states. All documents such as general terms and conditions and privacy notices available for customers were modified in order to ensure compliance. Where necessary, procedures were also developed or changed such as the OTP Group's cookie policy and the way to deal with data subjects' rights. A register of data protection activities was established and is kept up-to-date. Personal data breaches are recorded and classified concerning the risk it has to the rights of data subjects. A network of data stewards has also been established. Data stewards seek to ensure that from the planning phase of a new service or product, the principles of data protection and privacy requirements are taken into account. Contracts which have data protection implications were also reviewed in 2018 as part of this process. The role of the parties was carefully examined and contracts between joint controllers or with data processors were drawn up and signed. All

employees of the OTP Group received privacy education to increase awareness of the OTP Group's responsibilities under GDPR.

Compliance policies

The Issuer and the other members of the OTP Group enforce a sanctions policy which is designed to ensure compliance with international sanctions issued by national authorities and international organisations.

The OTP Group seeks to be diligent in identifying business relations with clients showing attributes related to sanctions and/or sensitive subjects or objects (e.g. dual-used technology, weapon production or commerce, nuclear energy, red-light business etc.). The sanctions restrictions issued by the European Commission apply to all members of the OTP Group located in the EU, and OTP Group members located outside of the EU are required to consider the interests and policies of the entire OTP Group. No member of the OTP Group is permitted to involve entities or individuals in the restricted business process in order to avoid the application of sanctions. Any kind of evasion of sanctions is forbidden by OTP Group policy.

The Issuer has issued a decree (No. 17/2018-CBI-1020) (the “**Decree**”) which applies to every member of the OTP Group. However, if the local regulations are more stringent compared to the Decree, the relevant OTP Group member is required to seek to comply with the local regulations instead. When the local regulations are perceived to be less stringent than the Decree, the relevant member of the OTP Group shall comply with the terms of the Decree.

The Issuer seeks to comply with the UN and the EU legal norms relating to the freezing and confiscation of goods and funds related to breaching sanctions. All employees and managers of the OTP Group are required to comply with the restrictions related to sanctioned entities, persons and services.

Each member of the OTP Group shall classify the business relationship in relation to sanctions. The categories are as follows:

1= None 2= Low; 3= Moderate; 4= High

If the business relationship is designated as “High” in respect of sanctions, the Issuer shall refuse the request presented by the client. In the instance, every business line in the OTP Group has to assess its deals in relation to sanctions.

Basic principles of the Code of Ethics

The OTP Group enforces a Code of Ethics regarding ethical business operations.

To monitor compliance with the rules of ethics and observance of the requirements of ethical operations, the Issuer has set up an Ethics Committee; a body that reviews the Issuer's operations on a regular basis from the perspective of compliance with the basic principles and the adoption of the expected forms of conduct as defined in the Code of Ethics.

Employees are able to report violations of the Code of Ethics either in person, by telephone or e-mail. The OTP Group also does the utmost to protect employees who report infringements against discrimination and unfair treatment by prohibiting retaliatory measures or the application of negative consequences against any person who reports, in good faith, actual or suspected breaches of the values and principles of the Code of Ethics.

The Issuer attaches particular importance to making sure that the employees familiarise themselves with and develop awareness of, the norms of ethics. The Issuer provides an e-learning programme for every single employee, and reviews and monitors compliance with those norms on a regular basis.

The guidelines and requirements set forth in the Code of Ethics specify obligations for the Issuer's executive officers, employees and agents. “Agents” include representatives, experts, intermediaries, consultants, agents

per se, subcontractors and suppliers, along with enterprises and natural persons in other legal relationships with the Bank under the civil law. The provisions set forth in the Code of Ethics must be observed and complied with during the entire period of the employment or contractual relationships – both during and outside working hours.

As an ethical and compliant institution, the Issuer and its management are fully committed to ensuring observance of all relevant legislation, including anti-corruption statutes. The Issuer 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.

The Code of Ethics has also provisions on, amongst other things, anti-corruption including prohibited manipulation, rules on the acceptance of gifts, refusing payments facilitating business procedures, sponsorship, and donation.

The detailed procedural rules are set out in the administrative directive on the framework for reporting unethical conduct defining the rules concerning the operation of the whistleblowing system which complies with the statutory requirements and also facilitates whistleblowing on the potential violation of the values specified in the Code of Ethics as well as the rules pertaining to the procedure related to such whistleblowing reports.

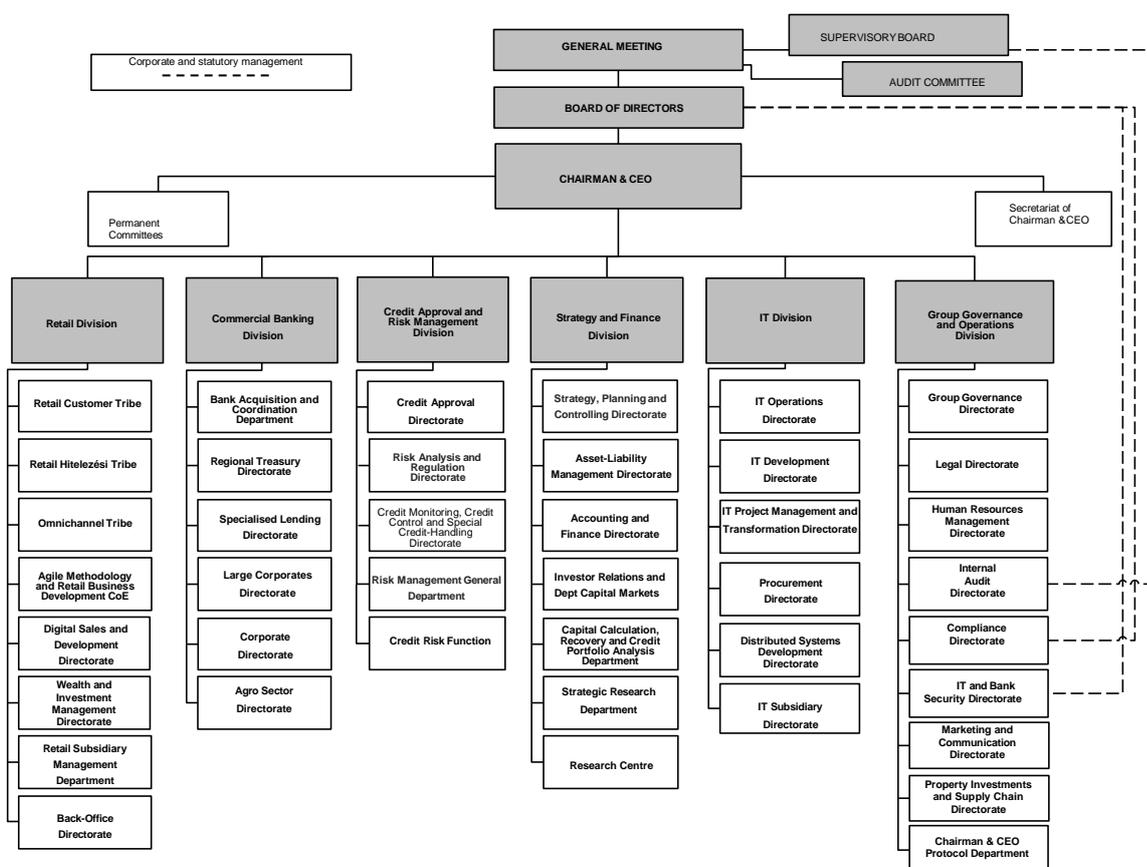
ORGANISATIONAL STRUCTURE AND MANAGEMENT

Organisational structure of the Issuer

The Issuer's operations are divided between the Issuer's headquarters in Budapest and its branches throughout Hungary.

The Issuer is composed of two core operational divisions and four functional divisions, each headed by a Deputy Chief Executive Officer. The core operational divisions are the Retail Division and the Commercial Banking Division. The Retail Division is responsible for retail services such as savings and current account services and consumer loans. The Commercial Banking Division is responsible for the corporate, MSE, municipal, international, securities, treasury and structured finance business lines.

The following diagram illustrates the internal organisational structure of the OTP Group:



The dotted line represents the governance line through the various management bodies and, where applicable, is based on regulatory requirements.

The Issuer believes that it is in compliance with the provisions of all applicable statutory regulations, orders of the supervisory authority and the regulations of the Budapest Stock Exchange. The structure and operating conditions of the Issuer are contained in its Articles of Association, which are approved by the General Meeting of Shareholders.

In 2018, there was one significant change in senior management, as Mrs. Ágnes Rudas, Head of the Presidential Cabinet Office retired. From 1 September 2018, the Group Governance and Operations Division was formed, led by Dr. Zsolt Barna who also became the general deputy-CEO.

Board of Directors

The Issuer's management body is the Board of Directors. The liability of the Board of Directors extends to the operation of the entire OTP Group, as part of which the Board's main tasks include the approval of the Issuer's strategy, annual report, major organisational restructurings and policies, as well as making other significant company law-related decisions. In its objectives and activities, particular emphasis is placed on increasing shareholder value, profitability and efficiency, and on managing risks and complying fully with external requirements.

The Board of Directors comprises three executive members and seven non-executive members.

The business address for the members of the Board of Directors is:

OTP Bank Plc.
Budapest
Nádor utca 16.
1051 Hungary
Tel: +36 1 473 5000

The members of the Board of Directors are elected by the General Meeting of Shareholders either for an indefinite period or for five years. The current members of the Board of Directors have been elected for a term of five years.

Executive members and their principal activities outside the OTP Group are:

Dr. Sándor Csányi, Chairman & CEO

He has been Chairman & CEO of the Issuer since 1992. He is the Vice Chairman of the Board of Directors of MOL Plc., Co-Chairman of the National Association of Entrepreneurs and Employers (VOSZ), and Co-Chairman of the Chinese-Hungarian Business Council. He has been Chairman of the Hungarian Football Association (MLSZ) since July 2010, and a member of the UEFA Executive Committee since March 2015. Since April 2017, he has been a member of the FIFA Council. In February 2018, he was elected Vice President of FIFA and in February 2019, he was elected Vice President of UEFA.

Antal György Kovács, Deputy CEO, Retail Division

He has been working at the Issuer since 1995, first as a county director and, from 1998, as the managing director of the Issuer's South Transdanubian Region. Since 1 July 2007, he has served as the Issuer's Deputy CEO. He has been Chairman of the Supervisory Board of OTP Bank Romania SA since 12 December 2012. He has been Chairman of the Board of Directors of OTP Mortgage Bank Ltd. and OTP Building Society Ltd. since 24 April 2014. He is Chairman of the Supervisory Board of OTP Fund Management and OTP Mobile Kft. He has been a member of the Issuer's Board of Directors since 15 April 2016.

László Wolf, Deputy CEO, Commercial Banking Division

From April 1993, he was managing director of the Issuer's Treasury Directorate, and since 1994 he has been Deputy CEO of the Commercial Banking Division. He is a member of DSK Bank's Supervisory Board. He has been Chairman of the Board of Directors of OTP banka Srbija since 10 December 2010. He has been a member of the Issuer's Board of Directors since 15 April 2016.

Non-executive members:

Mihály Baumstark

He was a member of the Issuer's Supervisory Board from 1992 to 1999, and has been a non-executive member of the Issuer's Board of Directors since 1999. He has been Chairman of the Issuer's Ethics Committee since 2010, as well as a member of its Remuneration Committee since 2011, and of its Nomination Committee since 2014.

Dr. Tibor Bíró

Since his retirement in 2015, he has been a visiting lecturer, and working actively in his auditing and consulting company. He has been a non-executive member of the Issuer's Board of Directors since 1992. He has been a member of the Issuer's Remuneration Committee since 2009, and of its Nomination Committee since 2014.

Tamás Erdei, Deputy Chairman

He is the chairman of the Supervisory Board of the International Children's Safety Service. He has been a member of the Issuer's Board of Directors since 27 April 2012. He has been a member of the Issuer's Risk Assumption and Risk Management Committee, and of its Nomination Committee, since 2014. Mr. Tamás Erdei was elected a Deputy Chairman of the Bank's Board of Directors on 12 April 2019.

Dr. István Gresz

From 1993, he was director of the Issuer's Zala County Directorate, and from 1998 he served as the managing director of the bank's West Transdanubian Region. From 1 March 2006 until his retirement on 14 April 2016, he was deputy CEO of the Credit Approval and Risk Management Division. He was Chairman of the Board of Directors at OTP Factoring between 2006 and 2017. He has been a member of the Issuer's Board of Directors since 27 April 2012.

Dr. Antal Pongrácz

Between 1988 and 1990, he was the first Deputy CEO of the Issuer. From 2001 until his retirement on 14 April 2016, he was managing director of the Issuer's Staff Division and more recently Deputy CEO. He has been Chairman of the Supervisory Board of OTP banka Hrvatska d.d. since 12 April 2012, and was Chairman of the Supervisory Board of Splitska banka from 2 May 2017 until its successful integration on 30 November 2018. He has been a member of the Issuer's Board of Directors since 2002. He was Deputy Chairman of the Issuer's Board of Directors from 9 June 2009 to 14 April 2016.

Dr. László Utassy

He was Chairman & CEO of OTP Garancia Insurance from 1996 to 2008. He was managing director of the Issuer's between 2009 and 2010. Since 1 January 2011, he has been Chairman & CEO of Merkantil. He has been a member of the Issuer's Board of Directors since 2001. He has been a member of the Issuer's Risk Assumption and Risk Management Committee since 2014. He has been Chairman of the Board of Directors of Merkantil Real Estate Leasing Ltd. since 4 April 2018.

Dr. József Vörös

He has been a non-executive member of the Issuer's Board of Directors since 1992. He has been Chairman of the Issuer's Remuneration Committee since 2009, and of its Risk Assumption and Risk Management Committee since 2014.

Supervisory Board

The Supervisory Board performs the oversight of the Issuer's management and business activities. In accordance with regulatory requirements, the Supervisory Board comprises of a majority of independent (non-executive) members. The ratio of independent (non-executive) members (four members) to the total number of members (six members) is 67 per cent.

The responsibility of the Supervisory Board extends to the supervision of the lawfulness of the Issuer's operations, its business practices and management, including control of the Issuer's internal audit organisation. The Supervisory Board exercises a preliminary right of consent in respect of decisions relating to the establishment and termination of the employment of, and well as the determination of the remuneration of, the managers of the internal audit organisation. It is the task of the Supervisory Board to accept and regularly review, within the limits defined by the General Meeting of Shareholders, the principles of the Issuer's Remuneration Policy.

Members of the Supervisory Board:

The members of the Supervisory Board are elected by the General Meeting of Shareholders either for an indefinite period or for three years. The current members of the Supervisory Board have been elected for a term of three years.

Independent members:

Tibor Tolnay, Chairman of the Supervisory Board

He has been the managing director of ÉRTÉK Kft. since 1994, and a member of the Issuer's Supervisory Board since 1992, and Chairman of the same Board since 1999. He was a member of the Issuer's Audit Committee between 2007 and 2011, and was re-appointed in 2014.

Dr. József Gábor Horváth, Deputy Chairman of the Supervisory Board

He has been a member of the Supervisory Board of the Issuer since 1995. He has been Deputy Chairman of the Issuer's Supervisory Board since 2007. He was a member of the Issuer's Audit Committee between 2007 and 2011, and was re-appointed in 2014.

Olivier Péqueux

He has been a member of the Supervisory Board and Audit Committee of the Issuer since 2018.

Dr. Márton Gellért Vági

Since 2010, he has been general secretary of the Hungarian Football Association. He has been a member of the UEFA HatTrick Committee since 2011 and of FIFA's Financial Committee since 2017. He has been a member of the Issuer's Supervisory Board since 2011. He has been a member of the Issuer's Audit Committee since 2014.

Employee delegates

Klára Bella

On 12 April 2019, the Issuer's AGM elected Mrs. Klára Bella onto the Supervisory Board as the employees' delegated representative. She joined the Issuer in 1992. Since 1995 she has been working as risk manager at the Central Branch of the Issuer. In 1997, she became deputy managing director at the Central Branch. Since 2017, she has been working as the director of Large Corporate Directorate.

András Michnai

He has been an employee of the Issuer since 1974, and until 1981 held a variety of posts in the branch network. Following this, he held a management position in the central network coordination department before returning to work in the branch network. From 1994, as deputy managing director, he participated in the central coordination of the branch network. Between 2005 and 2014, he headed the Issuer's Compliance Department as a managing director. He has been a member of the Issuer's Supervisory Board, and a representative of the Issuer's employees, since 2008. He has been Secretary of the Issuer's Employees' Trade Union since December 2011.

Audit Committee

The Audit Committee is a body that assists the work of the Supervisory Board in relation to the monitoring of the financial reporting system, selection of the auditors, and cooperation with the auditors. Under its new powers exercised since 1 January 2017, the Audit Committee monitors the internal audit, risk management and reporting systems, as well as the auditors' activities. The Audit Committee reviews and monitors the auditors' independence, with special regard to the performance of any non-prohibited non-audit services to be provided by the auditors in addition to its audit activity. Furthermore, it fulfils the audit committee tasks of the domestic subsidiaries.

Members of the Audit Committee:

The Audit Committee consists of four members, and its members are elected by the General Meeting from among the non-executive members of the Supervisory Board. They are elected for a term of three years. The Audit Committee elects a chairperson from among its own members.

Dr. József Gábor Horváth, Chairman of the Audit Committee

Tibor Tolnay

Olivier Pégueux

Dr. Márton Gellért Vági - Senior Management

Members of Senior Management:

Dr. Sándor Csányi, Chairman & CEO

Dr. Zsolt Barna - General Deputy CEO, Group Governance and Operations Division

He has been working for OTP Group since 2010, during which time he was appointed to Chairman of the Board of Directors of CKB Bank in Montenegro, where he was in charge of the bank's reorganisation. Between 8 June 2016 and 31 August 2018, he held the position of the Chairman and CEO of OTP Real Estate Investment Fund Management Ltd. and, in addition, from September 2016 to 31 August 2018 he acted as Chairman of the Board of Directors of OTP Fund Management. He has been Chairman of the Board of Directors of OTP Real Estate Investment Fund Management Ltd. since 8 June 2016. Starting from 10 September 2018, he has been Chairman of the Supervisory Board of OTP Real Estate Ltd. Since 1 September 2018, he has been the General Deputy CEO in charge of the Issuer's Group Governance and Operations Division.

László Bencsik, Deputy CEO, Strategy and Finance Division

He joined the Issuer in 2003, when he became managing director of the Bank Operations Management Directorate, and the manager with overall responsibility for controlling and planning. He has been deputy CEO

of the Issuer, and head of the Strategy and Finance Division, since August 2009. Since 13 March 2012, he has been Chairman of the Supervisory Board of DSK Bank.

Tibor András Johancsik, Deputy CEO, IT Division

Since 24 February 2016, he has been Deputy CEO in charge of the Issuer's IT and Operations Division. He has been Chairman of the Supervisory Board of Monicomp Zrt. since 1 April 2016.

György Kiss-Haypál, Deputy CEO, Credit Approval and Risk Management Division

From 2015, he was deputy head of the Credit Approval and Risk Management Division of the Issuer, and was then appointed acting head of the Division. Since 3 May 2017, he has been deputy CEO of the Credit Approval and Risk Management Division. He has been chairman of the Board of Directors at OTP Factoring Ltd. since 1 September 2017.

Antal György Kovács, Deputy CEO, Retail Division

László Wolf, Deputy CEO, Commercial Banking Division

Permanent Committees of the Issuer

The permanent committee established by the Issuer's Board of Directors in support of management functions is the Management Committee. The Management Committee is a forum that directly supports the work of the Chairman & CEO and is the supreme management body of the Issuer. It has decision making power in the issues that are delegated into its scope of authority by the Organisational and Operational Regulations, it takes a preliminary position and prepares decisions in the majority of issues that are discussed by the General Meeting, the Board of Directors and the Supervisory Board, and plays a coordinating role in the senior management of the Issuer. The Management Committee also seeks to ensure that the Issuer can respond flexibly and effectively to market and regulatory factors and that the OTP Group as a whole can act in a coordinated fashion. The Management Committee performs its work on the basis of a six-month work schedule approved by the committee itself, and meets once a month (and on an ad-hoc basis as and when necessary). Its order of business is determined by its rules of procedure.

The following additional permanent committees operate within the Issuer for the performance of specific tasks:

- Asset-Liability Committee, which makes decisions on separately non-regulated affairs relating to the Issuer's highest-level asset-liability management
- Product Development, Sales and Pricing Committee
- International Product Development, Sales and Pricing Committee
- Work-Out Committee
- Credit and Limits Committee
- IT and Operations Board
- Group Operational Risk Management Committee
- Group Impairment Committee

Permanent committees are the Issuer's bodies in charge of preparing and making decisions as well as conducting consultations. The task of permanent committees is to prepare and make decisions needed for the performance of the Issuer's business activities, for minimising the Issuer's risks and for ensuring its operation. Decisions to establish permanent committees are made by the Issuer's Board of Directors. The members of the committees are persons in charge of the professional areas concerned, who have exceptional expertise and all-round

competence in the given matter. The chairpersons of the committees are nominated by the Chairman & CEO, and their rules of procedure, with the exception of the Management Committee, are approved by the head of the Legal Directorate. The Management Committee approves its own rules of procedure. In respect of resolutions, the Asset Liability Committee, the Credit and Limits Committee, the Group Operational Risk Management Committee, the International Product Development, Sales and Pricing Committee, the WorkOut Committee and the Group Impairment Committee operate on the principle of simple majority, while in the case of the Management Committee, the Product Development, Sales and Pricing Committee and the IT and Operations Committee, decisions are made by a simple majority of votes but the chairperson has a right of veto.

Potential conflicts of interest

There are no actual or potential conflicts of interest between the private interests or duties of the members of the Board of Directors, the Supervisory Board or the Senior Management of the Issuer and their duties to the Issuer.

BUSINESS ENVIRONMENT

Forecasts for different macroeconomic indicators and trends are based on research carried out by the OTP Research Centre.

Macroeconomic environment in OTP Group countries

OTP Group currently operates in ten different countries (Hungary, Albania, Bulgaria, Croatia, Montenegro, Romania, Russia, Serbia, Slovakia and Ukraine). These national economies are in different stages of development: several are members of the European Union (i.e. Hungary, Bulgaria, Croatia, Romania and Slovakia) and Slovakia is a member of the Eurozone. Russia and Ukraine are typical commodity economies, (i.e. to a great extent their economies are dependent on exporting raw materials and energy resources). Most of the CEE economies have moved from a catch-up period, where the growth was generated predominantly by the export sector, to now enjoying a broader based development supported by increasing domestic consumption and investment.

In 2018, the CEE region proved to be the engine of EU growth. In 2018 OTP Group's countries of operation continued to perform well, as economic growth was at or exceeded 4 per cent. in five countries, reached 3 per cent. in two (Ukraine, Bulgaria) and even the countries that showed slower economic expansion compared to the average, could grow by around 2.5 per cent. In addition, in Albania and Moldova GDP grew at a rate of close to 4 per cent. in 2018. On the whole, countries in the CEE paint a positive growth picture; Hungary, Slovakia, and Romania remained at the most advanced stage of the economic cycle and the expansion is typically driven by domestic demand. Fiscal and external debt trajectories are sustainable, many countries run budget surplus, which may offer adequate protection in case of external shocks. The deterioration in the external balances has already started, however many countries still run a current account surplus, and in countries where the balance has sunk to the negative territory, foreign direct investment and EU transfer usually cover the deficit. This suggests that most countries in the CEE region may reach 3.5 - 4 per cent. growth rates in 2019, while most of them seem relatively protected against negative external shocks. The strong domestic demand and the rising fuel prices sent inflation higher in most countries, a significant tightening of monetary conditions is not in the pipeline. Croatia's economy expanded by 2.6 per cent. – it could have been better but the very strict fiscal policy, aiming at Euro adoption, as well as the bankruptcy of the Agrokor and Uljanik companies, have decelerated growth. A similar rate of expansion may follow in 2019. The commodity exporters, Ukraine and Russia are at an early stage of the economic cycle, as they have not fully recovered from the recession caused by the collapse of commodity prices in 2014 - 2016. The autumn parliamentary elections and the IMF programme pose risks to Ukraine, and potential US sanctions threaten Russia. The deteriorating external environment and the above factors may somewhat decelerate growth rates in both countries by 2019: that of Ukraine may slow to 2.7 per cent. from 3.3 per cent., and that of Russia may drop to 1.8 per cent. from 2.3 per cent. However, interest rates are likely to drop in both economies compared to 2018. The National Bank of Ukraine and the National Bank of Russia have started to lower interest rates in March and June 2019, respectively.

Macroeconomic environment in Hungary

Amongst OTP Group member economies, Hungary saw a significant 4.9 per cent. year-on-year GDP growth in 2018. The unemployment rate was 3.7 per cent. and expected to drop to 3.4 per cent. by 2021. The country was still posting a current account surplus, though due to intensifying consumption and imports, it may reduce to zero in 2018. However, the current account surplus is expected to rise again as local demand moderates. Foreign direct investment inflows increased in 2018 with Hungary's net external debt declining substantially. Hungary's net external debt-to-GDP ratio fell to a historical low, alongside its external debt-to-GDP ratio dropping below

60 per cent. The net lending of the economy is expected to stabilise at a high level, around 2.3 per cent. of GDP. Inflation in 2018 was on average 2.8 per cent.

Favourable economic developments and a lower vulnerability of the country were confirmed by S&P Global and Fitch Ratings, upgrading the credit rating for Hungary in February 2019 (in both cases from “BBB-” to “BBB”).

Economic growth in Hungary is expected to slow down gradually from 2019, but is still expected to remain strong compared to the EU average. As a result of the dynamic growth in credit markets, the investment rate is likely to stabilise at higher levels. Government investment is expected to expand in 2019, but decline in 2020–2021. External demand may expand more slowly as downside risks surrounding global and European economic activities intensify. Higher real incomes are expected to contribute to a further expansion in household consumption and savings. However, with respect to long-term, sustainable economic growth, the improvement in competitiveness by structural measures will be given increasing emphasis. Both the Hungarian government and the MNB have come out with their own programmes aimed at improving the competitiveness of the economy.

According to the Budget Act, the fiscal deficit has been set for 1.8 per cent. in Hungary in 2019. The MNB and other market participants are hopeful it will be between 1.5 per cent. to 1.6 per cent. Over the last couple of years, the Hungarian government has introduced several measures to improve taxation receipts, which were higher for value added tax, personal income tax and corporate tax. As for monetary policy, the MNB expects rises in core inflation adjusted for indirect taxes due to favourable income developments and rising domestic demand, and inflation should gradually approach the 3 per cent. MNB target. After its most recent meeting on 30 April 2019, the Monetary Council left monetary policy unchanged (i.e. the base rate remained at 0.9 per cent., and the overnight deposit rate remained at -0.05 per cent.) and stated that the monetary policy stance would continue to be accommodative. Persistently buoyant domestic demand is boosting the pace of price increases, but weakening external activity is simultaneously restraining such increases. Accordingly, the Monetary Council is expected to continue to apply a cautious approach to monetary policy.

The Hungarian government submitted its convergence plans to Brussels in April 2019 where annual GDP growth is expected to remain around 4 per cent. The fiscal deficit will gradually decline and by 2023 could reach zero. Simultaneously, public debt-to-GDP is expected to drop by 55.9 per cent. by 2023. The unemployment rate is expected to decline below 3 per cent. and employment is expected to exceed 70 per cent. Looking ahead, developments in productivity will determine long-term, sustainable expansion in GDP. Monetary policy can raise the rate of potential growth through structural measures aimed at improving competitiveness while maintaining stability.

Competitive environment in Hungary

The Issuer’s management believe that by the end of 2018, the OTP Group in Hungary had a 26 per cent. market share of total assets, 30 per cent. of retail loans, 37 per cent. of retail deposits, 15 per cent. of corporate loans and 19 per cent. of corporate deposits, respectively and in the asset management segment, OTP Fund Management had a 22 per cent. market share.

Most of the Issuer’s local competitors in Hungary are foreign owned banks, including K&H Bank (part of the KBC Group), UniCredit, Erste Bank, Raiffeisen Bank, CIB (part of the Intesa Sanpaolo Group). In recent years, Hungarian ownership within the banking sector exceeded 50 per cent. (including the Issuer with a diverse ownership structure, but having its headquarters in Budapest) and the Hungarian government has also played an important role in consolidating the banking sector. In 2014, the Hungarian government purchased MKB (in English, the Hungarian Foreign Trade Bank) from Bayerische Landesbank and in 2015 it purchased Budapest Bank from GE Capital. MKB was re-privatised in 2016 and sold to financial investors. In June 2019, the shares

of MKB were listed on the Budapest Stock Exchange. The Hungarian government has indicated that it intends to sell the Budapest Bank but no final decision has yet been made.

During the financial crisis, several banking sector participants had to significantly deleverage and close significant parts of their physical network. The Issuer maintained the same branch network which currently helps it to maintain and improve market share amid intensifying competition.

During the financial crisis, loan volumes in the sector decreased substantially. For years, there was a net volume decrease both in corporate and retail loans. However, from 2016, there has been a gradual recovery, first in corporate loans and later in consumer loans and housing loans.

In 2018, outstanding Hungarian corporate and household loans increased by 14 per cent. and more than 5 per cent., respectively, year-on-year. Loans outstanding in the MSE sector continued to expand at nearly 12 per cent.

The following table shows the evolution of total Hungarian housing loan volumes, total Hungarian consumer loans volumes (including home equity loans) and total Hungarian corporate loans volumes as per cent. of GDP:

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	1Q 2019
Housing loans / GDP %	11.2	12.3	14.5	15.2	16.2	15.1	12.4	11.1	10.3	8.8	8.3	8.0	8.0	7.9
consumer loans (incl. home equity loans) / GDP (%)..	8.5	10.8	14.1	14.7	15.5	15.1	12.9	11.6	10.4	8.4	7.9	7.3	6.7	6.5
corporate loans / GDP (%)..	26.9	28.4	29.5	29.0	27.9	27.3	24.1	22.1	20.8	17.3	16.8	17.0	17.8	17.8

Despite reviving lending activity, Hungarian loan penetration levels are still low by regional standards and compared to their historic levels, implying good loan volume growth potential. In the period between 2006 and March 2019 housing loan volumes to GDP ratio was 16.2 per cent. at its peak in 2010, but in March 2019 this ratio was 7.9 per cent. This 7.9 per cent. is much lower than loan penetration levels in the region (Slovakia at 31.3 per cent., Montenegro at 28.2 per cent., Czech Republic at 23.7 per cent., Poland at 20 per cent. Serbia at 19.3 per cent., Croatia at 14.1 per cent. and Bulgaria at 10.1 per cent.), and close to the Romanian level (7.8 per cent.). In Hungary consumer loan volumes (including home equity loans) to GDP ratio was 15.5 per cent. at its peak in 2010, but in March 2019 this ratio was 6.5 per cent. This 6.7 per cent. is lower than the loan penetration levels in the region (Croatia at 18.7 per cent., Poland at 14.1 per cent., Bulgaria at 10.7 per cent., Slovakia at 9 per cent., Russia at 8.5 per cent. and Czech Republic at 7.4 per cent.), and close to the Romanian level (6.2 per cent.) and above the Ukrainian level (4.2 per cent.). Corporate loan volumes to GDP ratio was 29.5 per cent. at its peak in 2008, whereas in 2016 this ratio was 16.8 per cent. and grew to 17.8 per cent. in March 2019 in Hungary. This 17.8 per cent. is lower than the loan penetration levels in the region (Bulgaria at 31.2 per cent., Montenegro at 25 per cent., Serbia at 24 per cent., Ukraine and Croatia both at 21.6 per cent., Slovakia at 20.4 per cent., Czech Republic at 21.1 per cent.), close to the Polish level (17.2 per cent.) and exceeds the Romanian level (11.7 per cent.).

TREND INFORMATION

Since 31 December 2018 (being the date of the last published audited financial statements of the OTP Group) there are no trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Issuer's prospects.

HUNGARIAN BANKING SECTOR

The history of the Hungarian banking system

The first phase of the modernisation of the banking sector commenced in the early 1980s by loosening the centralised capital allocation regime that characterised the one-tier banking system. After two years of preparations and a year of impact assessment, the two-tier banking system was introduced in early 1987, when banks performing their operations on a commercial basis were institutionally separated from the MNB, which only retained its central bank activities.

From mid-1996 the balance sheet positions of banks started to improve gradually, their balance sheet totals rose, decision-making became more efficient and, consequently, the quality of their lending portfolios also improved. The privatisation of banks also accelerated in the same year, and the largest Hungarian banks were taken over by foreign owners. The development and evolution of the Hungarian banking sector has followed international trends, namely, the universal banking model, preferred by the EU directives which aim to create a single European market in financial services.

Following a phase of intensive development which started in 2000, the increase in branch establishment slowed down. However, competition between banks for retail customers intensified. Cost cutting and staff reduction became essential for credit institutions with declining profitability. The introduction and rapid spread of electronic banking services played an important role in this process.

The structure of the Hungarian banking system comprises a vast array of financial service providers, including banks, specialised credit institutions, savings and credit co-operatives and financial enterprises. The past few years have seen further diversification on the supply side, in particular in the payments segment, through the emergence of payment institutions (“*pénzforgalmi intézmény*”) and electronic money institutions (“*elektronikuspénz-kibocsátó intézmény*”) as new types of service providers introduced by recent EU legislation. Out of the three types of credit institutions (banks, specialised credit institutions or co-operative credit institutions), only banks are entitled to provide the full range of banking and investment services.

The effects of EU accession

Hungary became a member of the European Union (the “EU”) on 1 May 2004. Membership of the EU has resulted in Hungary adopting and implementing various EU directives. Changes have therefore been made to Hungarian banking law and accounting rules in order to harmonise them with the relevant EU directives. EU accession has greatly enhanced the international integration of the domestic money market and as about half of Hungarian banks are owned by foreign credit institutions, it has strengthened the close relationship between credit institutions and their foreign parent banks.

The amendment to the regulation on the Hungarian central credit information system has enlarged the scope of persons that are subject to registration therein, thereby enhancing the safety of investments, credit, securities lending activities and financial stability.

In the course of harmonising the national law with EU law, Hungary has also implemented Directive 2004/39/EC on markets in financial instruments (as amended, “**MiFID**”) and Directive 2004/109/EC on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market (the “**Transparency Directive**”) together with Directive 2007/14/EC on detailed rules for the implementation of certain provisions of the Transparency Directive.

Further, Hungary has implemented (a) Directive 2006/73/EC implementing Directive 2004/39/EC of the European Parliament and of the Council as regards organisational requirements and operating conditions for

investment firms and defined terms for the purposes of that Directive and (b) Directive 2007/16/EC implementing Council Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (“UCITS”) as regards the clarification of certain definitions. In order to implement the above-mentioned Directives, the Hungarian Parliament passed the Investment Firms Act, which came into force on 1 December 2007 and was accompanied by various amendments to the Capital Markets Act.

In light of the financial crisis, which exposed important failures in financial supervision, legislative proposals were made by the European Commission on the adoption of the so-called Omnibus Directive which aimed at:

- (a) establishing a European System of Financial Supervisors (“ESFS”) that would consist of a network of national financial supervisors working in tandem with new European Supervisory Authorities (“ESAs”) to be created by transforming the existing European supervisory committees into a EBA, a European Insurance and Occupational Pensions Authority (“EIOPA”), and ESMA, thereby combining the advantages of an overarching European framework for financial supervision with the expertise of local micro prudential supervisory bodies that are closest to the institutions operating in their jurisdictions; and
- (b) establishing a ESRB to monitor and assess potential threats to financial stability that arise from macro-economic developments and from developments within the financial system as a whole. To this end, the ESRB would provide an early warning of system-wide risks that may be building up and, where necessary, issue recommendations for action to deal with these risks.

Regulations (EU) No 1092/2010, No 1093/2010, No 1094/2010, No 1095/2010 and the Directive 2010/78/EU of 24 November 2010 are the elements of the so-called Financial Supervision Package.

The Financial Supervision Package confers important powers on the ESAs, including, inter alia, to:

- draw up specific rules for national supervisory authorities (“NSAs”) and financial institutions;
- develop technical standards, guidelines and recommendations;
- monitor how rules are being enforced by NSAs;
- take action in emergencies, including the banning of certain products;
- mediate and settle disputes between NSAs;
- ensure the consistent application of EU law; and
- mediate in certain situations and settle disagreements between NSAs, in particular in areas that require cooperation, coordination or joint decision-making by supervisory authorities from more than one member state of the EU.

The ESAs are also entitled to address individual decisions directly to the relevant NSAs:

- (a) in the course of the settlement of a disagreement between the relevant NSAs which has arisen in relation to cross-border situations, where those NSAs have failed to reach an agreement within the time limit set by the respective ESA for conciliation; and
- (b) in emergency situations declared by the European Council. In addition, in circumstances where an NSA fails to apply the relevant directly applicable provisions of EU law or has applied such provisions in a way that appears to amount to a breach thereof, the ESAs are empowered to issue a recommendation directly to the NSA concerned as to the actions necessary for compliance. In exceptional circumstances and subject to further conditions, where the relevant NSA fails to take the actions required by the

respective ESA, the ESA concerned may adopt decisions directly addressed to individual financial institutions as a last resort to ensure compliance with the requirements of the relevant EU legislation.

Furthermore, the Financial Supervision Package confers direct supervisory powers on ESMA over credit rating agencies established and registered in the EU, including powers to request information, launch investigations, and perform on-site inspections.

The ESRB is responsible for monitoring and assessing potential threats to financial stability that arise from macro-economic developments and from developments within the financial system as a whole. To this end, the ESRB provides an early warning of system-wide risks that may be building up and, where necessary, issues recommendations for action to deal with these risks.

The Joint Committee of the ESAs serves as a forum in which the ESAs co-operate regularly and closely to ensure cross-sector consistency, in particular with respect to financial conglomerates, accounting and auditing issues, micro-prudential analyses of cross-sectoral developments, risks to, and vulnerabilities of, financial stability, and retail investment products.

Recent legal changes and implementation of recent EU legislation

From 2014, the previous banking act was replaced by the Credit Institutions Act. Its major objectives were to recast the previous banking act and to facilitate the adaption of the Hungarian banking system to the unified banking standards of the EU (including the implementation of the fourth Capital Requirements Directive).

The implementation of other recent EU legislation includes:

- (a) Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms;
- (b) Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes;
- (c) Council Directive 2014/107/EU of 9 December 2014 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation;
- (d) Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property;
- (e) Commission Delegated Directive (EU) 2017/593 of 7 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to safeguarding of financial instruments and funds belonging to clients, product governance obligations and the rules applicable to the provision or reception of fees, commissions or any monetary or non-monetary benefits;
- (f) Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms (the “**BRRD**”);
- (g) Directive (EU) 2017/2399 of the European Parliament and of the Council of 12 December 2017 amending Directive 2014/59/EU as regards the ranking of unsecured debt instruments in insolvency hierarchy;
- (h) Directive 2015/849/EU of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purpose of money laundering and terrorism financing.

For further developments in respect of the continuing implementation of the respective EU legislation, please see the relevant subsections below.

Supervision and regulation of the banking system

The legal framework of the present banking system is based on the Credit Institutions Act, the Investment Firms Act and the Capital Markets Act and orders of the Government and the Minister responsible for the regulation of the financial markets issued in relation to the respective fields. Regulation of the Hungarian banking system is fully compliant with the relevant EU regulations, and in some cases it imposes even stricter national requirements.

In the Hungarian banking system, the MNB performs the supervisory functions. The MNB oversees all legal entities engaged in providing banking services in Hungary.

National Bank of Hungary as the central bank of Hungary

Act CXXXIX of 2013 on the National Bank of Hungary (the “**MNB Act**”) regulates the MNB and its current status in the system of European Central Banks. The MNB controls the volume of money in circulation and foreign exchange management and it adopts decisions and resolutions on the governance of the money market, interest rates, foreign exchange transactions and the supply of statistics. The MNB requires all lending institutions to create reserve funds amounting to a specified portion of their adjusted liabilities. The MNB is also responsible for the creation and management of the official reserves in gold and foreign exchange for the purpose of maintaining the external stability of the Hungarian economy.

The MNB designates the payment and securities settlement systems for the purposes of Directive 98/26/EC on settlement finality in payment and securities settlement systems and supervises their operation.

In order to enhance the secure operation of the financial system, the MNB supports the adoption and maintenance of an efficient policy on financial stability and the prudential supervision of credit institutions, in particular, by identifying those economic risks which endanger the stability of the financial system as a whole. The MNB also monitors the operation and liquidity position of, *inter alia*, systemically important financial institutions. To the extent that these are not set out in acts of Parliament or orders of the Government, the MNB may determine measures to prevent or mitigate systemic risks, including, *inter alia*, measures to limit excessive credit growth, liquidity requirements aimed at preventing systemic risks from building up, detailed rules on countercyclical capital buffers and additional requirements with a view to reducing the probability of default by systemically important financial institutions.

The MNB may, at its discretion, act as a lender of last resort to assist credit institutions facing transitional liquidity problems, where such difficulties endanger the stability and smooth operation of the financial system, particularly in respect of payment functions. Any loan granted by the MNB to a commercial bank in its lender-of-last-resort capacity constitutes an unguaranteed obligation on the part of that bank. Furthermore, the MNB may also provide liquidity to credit institutions in accordance with the current monetary policy through repo transactions. In addition, the MNB has ongoing consultations with banks, and holds on-site audits in its capacity as a supervisory organisation.

Further, the MNB has been designated as an “*agency*” for the purposes of the functions as set out in Section 1 of Article V of the Agreement of the International Monetary Fund (the “**IMF Agreement**”).

From 2010, the MNB, in cooperation with the relevant authorities, has supported the adoption and maintenance of an efficient policy on the stability of the financial system and the prudential supervision of credit institutions, in particular through the identification of economic risks which endanger the stability of the financial system as a whole.

The MNB reviews reports filed by banks and maintains a publicly available database on the Hungarian banking system. Furthermore, it continuously evaluates the status and publishes all information regarding the financial

position and condition of Hungarian credit institutions as well as with regard to the Hungarian economy. The MNB also monitors the compliance of credit institutions with the provisions of the Credit Institutions Act and the orders issued by the Governor of the MNB (the “**MNB Orders**”).

The European Central Bank and the National Bank of Hungary

There is no official date indicated by the Hungarian Government for Hungary to become a member of the Economic and Monetary Union (“**EMU**”). Prior to joining the EMU, Hungary needs to accede to the ERM-II system.

Hungary is presently at the second stage of the monetary integration, therefore it still retains the discretion to set its own monetary policy. Nevertheless, pursuant to the Treaty of Maastricht, it is bound to follow a strategy of convergence. The Governor of the MNB is a member of the Governing Council of the European Central Bank.

National Bank of Hungary as supervisory authority of the financial intermediary system

Since 1 October 2013, supervision of the banking sector has been carried out by the MNB as well, as the successor of the Hungarian Financial Supervisory Authority. The regulation of the status and organisation of the MNB is set out in the MNB Act. Further statutory powers are also conferred on it by other acts regulating the different sectors of the Hungarian financial industry. The MNB is a member of the European System of Financial Supervisors.

The MNB has been designated a “competent authority” for the purposes of Regulation (EC) No 1060/2009 on credit rating agencies laying down conditions for issuing credit ratings and rules on the organisation and conduct of credit rating agencies to promote their independence and the avoidance of conflicts of interest.

The MNB is headed by the Governor with the assistance of two or three Deputy-Governors. The Governor and the Deputy-Governors of the MNB are appointed by the President of Hungary on the nomination of the Prime Minister. The Financial Stability Council (“**FSC**”) supports the efficient operation of the MNB. The FSC consists of the Governor of the MNB, the Deputy-Governor(s) of the MNB responsible for the regulation of the financial, capital and insurance markets and other members appointed by the Governor of the MNB.

The MNB holds wide-ranging powers under the Credit Institutions Act, the Investment Firms Act, the MNB Act and the Capital Markets Act to license and supervise the operation of credit institutions. Supervision of banking activities in Hungary has strengthened as the banking system has developed.

The MNB is entitled to launch site audits, to take action in the interest of ensuring compliance with the Credit Institutions Act, and to initiate proceedings where non-compliance or, in the case of minimum liquidity requirements and the requirement to match asset and liability maturities, the danger of non compliance has been detected. The MNB must conduct comprehensive inspections once every three years including on-site audits at banks, specialised credit institutions, insurance companies and reinsurers.

The MNB can implement a variety of measures to eliminate deficiencies and irregularities detected at lending institutions: from notification and enforcement of mandatory decisions, restrictions or bans on certain functions of the offending institution, delegation of a superintendent, to the ultimate measure of withdrawing the operation licence of the credit institution. Apart from the above administrative powers, as an exceptional measure, the MNB may also impose a fine for any of the following: infringement of legal regulations or MNB Orders pertaining to financial services and supplementary financial services; failure to comply with the Credit Institutions Act, MNB decisions, internal rules and regulations of the supervised institutions; or late or insufficient compliance with the above. The maximum limit for such fines is specified as the higher of a fixed amount not exceeding two billion forints, twice of the amount of the gains or prevented losses resulting from

breach of law or 10 per cent. of the annual income calculated in the latest consolidated financial report determined for the institution concerned.

In certain cases specified by the Credit Institutions Act the MNB must employ the exceptional measure of delegating a superintendent to a credit institution upon the occurrence of the following events:

- (a) the solvency capital of the credit institution does not reach 80 per cent. of the mandatory level prescribed by law and the owner or the third-country credit institution is unable, or not willing, to restore the solvency capital or the own equity of the credit institution to the mandatory level prescribed by law or to the level imposed by the MNB; or
- (b) the competent authority, supervising the parent company of the credit institution, notifies the MNB of the occurrence of a crisis situation which jeopardises or endangers the financial stability of the parent company.

Further, the MNB is empowered to impose a ban or restriction on the undertaking of commitments by the credit institution involved for maximum one year (which can be extended with a half year) or the repayment of deposits for a maximum 90-day period.

The MNB Act confers a power on the Governor of the MNB to make delegated legislation exercisable by order. Such power, however, is strictly limited to the subject matters set out in the MNB Act and in the sectoral acts, such as detailed rules on the disclosure and reporting obligations of regulated entities, internal controlling procedures etc. Further, orders foreseen to be issued by the Governor of the MNB may not be in contradiction to, and may not derogate from, acts of Parliament or orders of the Government.

The Credit Institutions Act also sets out the cooperation of the supervisory authorities of the relevant EU member states in relation to the supervision of cross-border banking groups on a consolidated basis, and regulates the functions to be performed by the MNB in its capacity as consolidating supervisor.

Principles of the National Bank of Hungary

In order to prevent insolvency and minimise the negative consequences of such after the global financial crisis, it is necessary for the financial institution to continuously maintain their functions in the financial system. In order to ensure that, the EU introduced the BRRD implemented in Hungary by Act XXXVII of 2014 on the further development of the system of institutions strengthening the security of the individual players of the financial intermediary system.

In order to further strengthen the Hungarian banking system and the stability of the Hungarian financial intermediary system, on 14 November 2018 the MNB published its principles for setting minimum requirement for own funds and eligible liabilities (the “**MREL Principles**”) to provide guidance on how the MNB approaches the interpretation of certain regulatory provisions governing the determination of minimum requirement for own funds and eligible liabilities within the legislative framework of the BRRD and Act XXXVII of 2014. Credit institutions and investment firms are obliged to continuously comply with the requirements, which require the institutions holding of liabilities of adequate quantity and quality to allow their partial or complete write-off or conversion to equity in case of a situation that makes such action necessary, therefore ensuring the bearing of losses by owners and creditors as well as the efficiency of the resolution actions. The authority which sets such requirements in Hungary is the MNB and the MREL Principles covers the following topics: the assumptions based on which MNB determines the size of the requirement; the quality of liabilities eligible to meet the requirement; and the lengths of the transitional period justified and necessary to comply with the final target. As at the date of the Prospectus, the MREL requirements of the Issuer had not been confirmed to the Issuer by the MNB.

Main elements of the Hungarian banking regulations

The current regulatory framework for the Hungarian banking system is primarily set out in the Credit Institutions Act, the Capital Markets Act and the Investment Firms Act, which transposed the relevant EU legislation into Hungarian law, including, inter alia, Directive 2013/36/EU of the European Parliament and of the Council on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, Directive 2014/65/EU on markets in financial instruments (as amended, “**MiFID II**”), the provisions of Directive 2015/2366/EU on payment services in the internal market (the “**PSD2**”) and Directive 2009/110/EC of 16 September 2009 on the taking up, pursuit and prudential supervision of the Business of Electronic Money Institutions (the “**Electronic Money Institutions Directive**”). Particular provisions applicable to specialised credit institutions, such as mortgage credit institutions, are set out in specific acts, including the Mortgage Credit Institutions Act). In addition, specific rules not regulated in detail under these acts are elaborated in Government orders, MNB Orders or orders issued by the minister responsible for the regulation of the financial markets.

Capital Adequacy

Basel III

On 16 December 2010, the Basel Committee on Banking Supervision (the “**BCBS**”) published the text of its reform package (commonly referred to as “**Basel III**”, revised in June 2011), which presents the details of global regulatory standards on bank capital adequacy and liquidity agreed by the Governors and Heads of Supervision, and endorsed by the G20 Leaders at their Seoul summit held in November 2010. Basel III promotes two frameworks regarding capital: a global regulatory framework for more resilient banks and banking systems (the “**Capital Guidelines**”) and an international framework for liquidity risk measurement, standards and monitoring (the “**Liquidity Guidelines**”).

The Capital Guidelines comprise new standards on minimum Tier1 capital, the composition of the capital base, rules on counterparty risk, a leverage ratio and concepts for countercyclical capital buffers. Basically, the reforms raise both the quality and quantity of the regulatory capital base of banks and enhance the risk coverage of the capital framework. These reforms are underpinned by the introduction of a simple, transparent, non-risk based leverage ratio in relation to banks that serves as a backstop to the risk-based capital measures, which is intended to constrain excess leverage in the banking system and to provide an extra layer of protection against model risk and measurement error.

Pursuant to the Capital Guidelines, the predominant form of Tier1 capital (“Common Equity Tier1” capital) is common shares and retained earnings. The remainder of the Tier1 capital (“Additional Tier1” capital) consists of instruments that are subordinated, have fully discretionary non-cumulative dividends or coupons and have neither a maturity nor an incentive to redeem. Furthermore, the Common Equity Tier1 ratio is 4.5 per cent. of risk-weighted assets. Additionally, a capital conservation buffer of 2.5 per cent., comprised of Common Equity Tier 1, is to be established by the banks above the regulatory minimum capital requirement. Therefore, practically, the total common equity requirement of banks is to be 7 per cent. Banks are also subject to a countercyclical buffer regime which allows national regulators to require up to another 2.5 per cent. of capital during periods of high credit growth.

Furthermore, under the Capital Guidelines, in addition to the default risk capital requirements for counterparty credit risk the banks are required to add a capital charge to cover the risk of mark-to-market losses on the expected counterparty risk (such losses being known as credit value adjustments: “**CVA**”) to over-the-counter (“**OTC**”) derivatives. This strengthens the capital requirements for counterparty credit exposures arising from banks’ OTC transactions, provides additional incentives to move OTC derivative contracts to central counterparties and generally raises counterparty credit risk management standards.

Under the Liquidity Guidelines, the BCBS strengthened its liquidity framework by developing two minimum standards for funding liquidity. These standards have been developed to achieve two separate but complementary objectives. The first objective is to promote short-term resilience of a bank's liquidity risk profile by ensuring that it has sufficient high-quality liquid assets to survive a significant stress scenario lasting for one month. The Committee developed the Liquidity Coverage Ratio ("LCR") to achieve this objective. The second objective is to promote resilience over a longer time horizon by creating additional incentives for banks to fund their activities with more stable sources of funding on an ongoing basis. The Net Stable Funding Ratio ("NSFR") has a time horizon of one year and has been developed to provide a sustainable maturity structure of assets and liabilities. The LCR, including any revisions, was introduced on 1 January 2015. The NSFR, including any revisions, moved to a minimum standard by 1 January 2018.

EU legislation

As regards the European Union, the current EU framework for regulatory capital is primarily set out in the CRR and CRD IV. The CRD IV aims to ensure the soundness and stability of credit institutions and certain investment firms, on the basis of the three-pillar structure of the Basel II (Revised) Capital Framework.

CRD IV was implemented in Hungary by the Credit Institutions Act which applied from 1 January 2014.

The CRR provides a single rule book, directly applicable in all EU member states, and sets out a single set of prudential requirements for credit institutions and investment firms with uniform application throughout the EU. CRR requires banks to have set aside enough capital to cover unexpected losses and keep themselves solvent in a crisis. As a main principle, the amount of capital required depends on the risk attached to the assets of a particular bank. This is referred to as the "*own funds requirement*" and is expressed as a percentage of risk-weighted assets. In other words, the riskier the assets, the more capital the bank has to set aside.

The own funds consist of the following:

- (i) Tier 1 capital which consists of the sum of the following:
 - Common Equity Tier 1 (CET1) capital made up of capital instruments, share premium accounts, retained earnings, accumulated other comprehensive income, other reserves, funds for general banking risk after application of some adjustments and deductions; and
 - Additional Tier 1 capital which consists of capital instruments, under the conditions laid down in Article 52(1) of CRR and share premium accounts related to the instruments referred to in this bullet after application of adjustments.
- (ii) Tier 2 capital, which includes capital instruments and subordinated loans under the conditions laid down in Article 63 of CRR, the share premium accounts related to instruments referred to in this bullet and some adjustments depending on the method of calculating risk-weighted exposure amounts.

A total amount of capital that banks and investment firms are required to hold should be equal to at least 8 per cent. of risk-weighted assets. The share that has to be of the highest quality capital - common equity tier 1 should make up 4.5 per cent. of risk-weighted assets.

The CRR II proposals cover, amongst others things, the leverage ratio, requirements for own funds and eligible liabilities, credit risk, exposures and reporting requirements. In relation to CRD V, proposals have been made with regard to exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures. The amendment to the BRRD will address the need for proportionality of bail-in related rules to ensure the effectiveness of the bail-in tool in a cross-border resolution and to promote equal treatment between EU and third-country creditors.

Implementation of the relevant EU legislation by Hungary

The capital adequacy requirements set out in the CRD IV have been transposed into Hungarian law through the Credit Institutions Act and its various amendments as well as orders issued by the Government and the minister responsible for the regulation of the financial markets.

Pursuant to the Credit Institutions Act, banks must maintain a registered capital of at least HUF 2 billion (approximately EUR 6.2 million). The minimum registered capital requirement amounts to at least HUF 3 billion (approximately EUR 9.3 million) for mortgage credit institutions as a type of specialised credit institution. The amount of a credit institution's equity may not be less than the statutory minimum amount of its registered capital. In the event of the amount of a credit institution's equity falling below the registered capital, the MNB may afford the credit institution a maximum 18-month deadline to bring its equity to the required level.

In order to maintain its solvency and ability to satisfy its liabilities, a credit institution must at all times maintain solvency capital adequate to cover the risk of the financial and investment activities it engages in.

The solvency capital must be at all times equal to, or above, the sum of:

- (a) 8 per cent. of its total risk weighted exposure, calculated in accordance with the relevant provisions of the CRR, for its credit risk;
- (b) the capital requirement for its dilution risk;
- (c) the capital requirement for counterparty credit risk in relation to items booked in, and out of, its trading book;
- (d) the capital charge for position risk and large exposures in its trading book;
- (e) the capital charge for foreign exchange and commodities risk throughout all of its business activities; and
- (f) the capital requirement for operational risk inherent in all of its business lines,

which may not in any event be less than the minimum amount of its registered capital.

The CRR provides for two broad methodologies to quantify a bank's risk weighted exposure: the Standardised Method and the Internal Ratings Based Approach. The Standardised Method enables the credit institution to measure its risks in a standardised manner on the basis of the principles laid down in the CRR. Pursuant to this method, each exposure must be categorised into an exposure class, linked to the respective risk category. Alternatively, the Internal Ratings Based Approach, subject to the explicit approval of MNB, allows banks to use their internal rating systems.

Trading Book

A trading book consists of positions in financial instruments and commodities held either with trading intent or in order to hedge other elements of the trading book. Positions held with trading intent are those held intentionally for short-term resale and/or with the intention of benefiting from actual or expected short-term price movements or to lock in arbitrage profits, including proprietary positions, positions arising from client servicing and market making. To be eligible for trading book capital treatment, financial instruments must either be free of any restrictive covenants on their tradability or be able to be hedged completely. In addition, positions should be frequently and accurately valued, and the portfolio should be actively managed.

In order to ascertain a credit institution's capital requirements in respect of positions booked in the trading book, there must be clearly defined policies and procedures in place in order to determine which exposures to include

in, and to exclude from, the trading book. Systems and control mechanisms must be sufficient to provide prudent and reliable valuation estimates.

The regulation of credit institutions' trading activities and the trading book are set out in the Investment Firms Act and the related Government orders (implementing MiFID II and the relevant provisions of CRD IV).

General Reserves

A credit institution must create general reserves against the possibility of losses not yet identified by setting aside 10 per cent. of its Profit After Tax prior to paying dividends or shares. The funds so set aside may be used only to offset the losses incurred by the credit institution from its business activities. (Upon request, a credit institution may be exempted by the MNB from the obligation to create general reserves provided that the amount of the credit institution's solvency capital is at least equal to 150 per cent. of the minimal amount of solvency capital as set out in CRR and any additional capital required by the regulator and if it has no negative profit reserves.)

Minimum liquidity requirements

The LCR are monitored by the MNB from the beginning of 2012 on a quarterly basis, but since 2013 LCR has been switched to monthly monitoring. Based on the EU legislation, the MNB ensures that a bank maintains an adequate level of high-quality liquid assets that can be converted into cash to meet its liquidity needs for a 30-calendar day time horizon under a significantly severe liquidity pre-specified stress scenario. The liquidity coverage ratio - unencumbered high-quality assets against net cash outflows over a 30-day stress period – has been phased-in gradually, starting at 60 per cent. in 2015 and reached 100 per cent. in 2016.

For a stable financing market it is essential for credit institutions to apply stable and long-term foreign currency resources. MNB Order No. 14/2014. (V. 19.) (the “**MNB Order I**”) establishes that from 1 January 2016, the foreign currency ratio shall at all times reach 100 per cent., calculated according to the MNB Order based on quarterly reporting to the MNB. Furthermore, according to MNB Order No. 25/2015. (VII. 30.), the absolute value of a credit institution's the foreign currency indicator must not exceed 0.15 from 1 January 2016.

MNB Order No. 20/2015. (VI. 29.) (the “**MNB Order II**”) deals with retail mortgage loans financed by the issuance of mortgage-backed securities. Mortgage bonds and other similar instruments are considered to be stable, long-term resources with relatively low funding costs due to their favourable risk rating. Financings with longer term securities also reduce the interest rate risks. The scope of the MNB Order II covers credit institutions and credit institution groups, with some exceptions. Pursuant to MNB Order II, the mortgage-backed financing compliance indicator at all times shall be 0.20 from 1 October 2018 based on quarterly reporting to the MNB.

Capital Buffers

In addition to the mandatory common equity tier 1 capital requirement set out in CRR, pursuant to the Credit Institutions Act implementing CRD IV all banks are required to hold certain capital buffers to ensure that they accumulate a sufficient capital base in prosperous times to enable them to absorb losses in the event of a crisis.

Capital conservation buffer

Banks have to hold a capital conservation buffer in order to preserve a bank's capital. If a bank does not comply with this buffer, it will have to limit or stop payments of dividends or bonuses. The capital conservation buffer is for Hungarian credit institutions is 2.5 per cent. of total risk exposure.

Countercyclical capital buffer

The countercyclical capital buffer is a prudential tool to counteract the effects of the economic cycle on banks' lending activity. It requires a bank to have an additional amount of capital (CET 1) in good times, when credit growth is strong, so that when the economic cycle turns, and economic activity slows down or even contracts, this buffer can be released to allow the bank to keep lending to the real economy. The countercyclical capital

buffer for credit institutions that have exposures from loans granted in Hungary may extend to 2.5 per cent. from total risk exposure. This could be increased by the MNB if the loans to deposits ratio is high or there are material adverse tendencies in the macroeconomic environment.

Other systemically important institutions (O-SII) buffer

This buffer applies to domestically important institutions as well as institutions of EU importance. Hungarian credit institutions identified as O-SII by the MNB must maintain at individual, sub-consolidated or consolidated level, as the case may be, an O-SII capital buffer of 1 to 3.5 per cent. of total risk exposure (depending on the categorisation of the relevant credit institution). The O-SII buffer applies to the Issuer.

Systemic risk buffer

The requirement to hold a systemic risk buffer of common equity tier 1 capital may be applied to the entire financial sector or its separate parts. The aim is to prevent and mitigate long-term non-cyclical systemic or macro-prudential risks, which may have serious negative consequences for the real economy. This buffer may apply to banks nominated by the MNB and its minimum rate is 1 per cent.

Large Exposures

The so-called “large exposures” are the exposures of an institution to a single client or a group of connected clients, representing more than 10 per cent. of its eligible capital (therefore “large” compared to an institution’s overall capital resources). Pursuant to CRR, a large exposure cannot exceed 25 per cent. of the institution’s eligible capital (or EUR 150 million, whichever is higher). The purpose of this limit is to protect institutions from significant losses caused by the sudden default of an individual counterparty or a group of connected counterparties.

Regulation on Transactions

In addition to the provisions on capital adequacy, the Credit Institutions Act imposes other requirements and restrictions on credit institutions, including reporting obligations and liquidity requirements, and contains limitations on exposures related to the acquisition of ownership in companies and real estate, as well as other forms of investment restrictions. The Credit Institutions Act also sets out requirements as to the fitness, probity and competence of the credit institutions’ personnel.

Implementation of the Payment Services Directive

The PSD2 provides the legal framework for payments in the European Economic Area and a single market for Euro payments, known as the Single Euro Payment Area (“SEPA”). SEPA aims at creating an integrated market for payment services in EUR, with a common set of business rules and technical standards for non-cash payments, where all EUR payments are treated equally, and the differentiation between domestic and cross border transactions disappears. PSD2 also seeks to improve competition by opening up payment markets to new entrants, thus fostering greater efficiency and cost reduction.

The PSD2 was implemented into Hungarian law as from 13 January 2018, when Act CXLVI of 2017 amending Act LXXXV of 2009 on the Provision of Payment Services (the “**Payment Services Act**”) and Act CCXXXV of 2013 on Certain Payment Service Providers (the “**Payment Service Providers Act**”) came into force.

The Payment Services Act lays down the requirements set out in the PSD2 in order for the Hungarian payment system to be compatible with SEPA. The Payment Services Act has established a comprehensive set of rules applicable to payment services provided within the territory of Hungary in relation to both domestic and cross-border payments within the EEA, with enhanced transparency as regards the conditions of payment services. The Payment Services Act imposes various disclosure obligations on payment service providers, which may

not be derogated from by contract where the customer is a consumer or a micro enterprise (within the meaning defined therein). Effective from 13 January 2018, MNB has adopted further rules in connection with the regime of payment services established by the Payment Services Act in its No 35/2017 (XII. 14.) Order on the execution of payments. Based on this regulation, the instant payment system (“*azonnali fizetési rendszer*”) is scheduled to be available from 3 March 2020 for customers. The system will be operated by the state owned Hungarian financial services provider, GIRO Zrt. The instant payment system shall process credit transfers and other payments within a maximum of five seconds with a maximum of 24 hours of system maintenance per year. It will be possible to initiate payments of up to HUF 10,000,000 (approx. EUR 31,103) via the instant payment system.

In addition to the already existing category of payment institutions, the amendment to the Payment Service Providers Act has introduced new categories of payment service providers, being the electronic money issuance institution and the voucher issuer.

It is currently planned that with regard to all domestic transfers of money for individuals (unless the order was issued in a paper format or the order was issued with a value date different from the issue date) sending less than HUF 10,000,000 will take place within 1-2 seconds (at most within five seconds) at any time of the day, seven days a week. Service providers will have only 24 hours for down time during every calendar year. Legal entities will fall under the new obligatory rules (i.e. for payment service providers) if they transfer less than HUF 10,000,000. The system is currently under testing and will be operated by GIRO Zrt. a wholly owned subsidiary of the MNB. The system is intended to be a competition of traditional payment cards (such as Visa, MC), cash and the so-called yellow cheques (used to pay utilities at post offices).

Consumer protection legislation in the financial sector

EU legislation on consumer protection in respect of financial services

Directive 2008/48/EC of the European Parliament and the Council of 23 April 2008 on credit agreements for consumers (the “**Consumer Credit Directive**”) sets out additional obligations on any natural or legal person who grants credit to consumers in the course of his trade, business or profession, including credit institutions. Certain types of credit agreements, such as loans secured by a mortgage on real estate, are excluded from the scope of the Consumer Credit Directive. By focusing on transparency and consumer rights, the Consumer Credit Directive ensures that comprehensive information is given to consumers in good time and before the contract is concluded and also as part of the credit agreement.

In order to enhance the comparability of different offers and to make the information more understandable, the pre-contractual information needs to be supplied in a standardised form (Standard European Consumer Credit Information), which must be used by every creditor (as defined in the Consumer Credit Directive) when marketing consumer credit in any Member State. Further, the Consumer Credit Directive imposes significantly more stringent obligations on creditors in respect of both the disclosure and calculation of the Annual Percentage Rate of Charge (as harmonised at the EU level, hereinafter referred to as “**APR**”), representing the total costs of the credit.

Moreover, the Consumer Credit Directive tightens the requirements for assessing the creditworthiness of consumer borrowers. In addition, the Consumer Credit Directive foresees two essential rights for consumers:

- (a) they are allowed to withdraw from the credit agreement without giving any reason within a period of 14 days after the conclusion of the contract; and
- (b) they are entitled to early repayment at any time, with limitations on creditors’ rights to compensation for the losses incurred because of the prepayment by the consumer.

Laws on consumer protection in Hungary

The recent Hungarian legislation, aimed at enhancing the protection of consumers in financial markets, implemented the Consumer Credit Directive, further narrowed the scope for unilateral amendments by credit institutions in respect of consumer credit agreements, and imposed other restrictions with a view to protecting the weaker party.

The Consumer Credit Directive has been implemented into Hungarian law by Act CLXII of 2009 on Consumer Credits (the “**Consumer Credit Act**”) and Government Order No. 361/2009 (XII. 30.) on the Requirements of Prudent Residential Lending and on the Assessment of Creditworthiness (the “**Consumer Credit Order**”).

It is necessary to highlight, however, that the Consumer Credit Act goes beyond the EU requirements, as a number of its strict provisions also apply to mortgage-backed loans and financial lease agreements, which are excluded from the scope of the Consumer Credit Directive. Both the Consumer Credit Act and the Consumer Credit Order have been amended a number of times to reflect policy changes, as well as to make certain clarifications.

The most important implications arise in respect of prepayments and the assessment of creditworthiness and, after the entering into of Act V of 2013 on the Civil Code (the “**New Civil Code**”), the obligation of credit institutions to provide the required information to the borrower. Furthermore, there are newly introduced limits in respect of the amount of the APR and any amendment of the credit agreement by the credit institution.

As regards prepayments, the Consumer Credit Act imposes significant limitations on, and conditions for, a credit institution recovering its losses, stemming from the consumer borrower repaying the loan, in whole or in part, earlier than its scheduled maturity.

In the event of a prepayment made by a relevant borrower in respect of a consumer mortgage-backed loan, the credit institution is entitled to compensation for the costs deriving from the borrower’s prepayment. Such compensation however is capped at (a) 1.5 per cent. of the prepaid amount; or (b) 2 per cent. of the same in the case of consumer loans funded by mortgage bonds, including loans refinanced by mortgage credit institutions, where the prepayment falls within a period during which the interest rate is a fixed rate, or within the respective interest rate period in respect of loans with a floating rate.

In addition, the Consumer Credit Act provides consumer borrowers that are over 90 days late on payments under their mortgage-backed loans with the possibility of applying for the extension of the relevant housing mortgage loan term by a maximum period of five years. Such applications may be made once only during the term of the relevant mortgage-backed loan and may not be refused by the respective creditors without good cause.

New requirements on credit rating

The provisions set out in the Consumer Credit Order apply to credits (as defined in the Credit Institutions Act) and financial lease agreements granted to, and/or entered into with, natural persons in the territory of Hungary by financial or payment institutions (as also defined in the Credit Institutions Act respectively) in the course of their lending activity.

Some types of credit agreements are excluded from the scope of the Consumer Credit Order, such as:

- amendments to, or the rescheduling of, existing credit agreements (without the fees charged by the creditor), stemming from the default or solvency problems on the part of natural-person borrowers, provided that the total amount of the borrower’s existing debt does not increase as a result of such alterations and the modified credit is (a) denominated in HUF or EUR, or made as a EUR-based loan, where the credit was originally disbursed as a EUR-denominated or EUR-based loan, or a loan denominated in a currency other than HUF or EUR; or (b) denominated in HUF if the credit was initially

denominated in HUF or (c) denominated in Swiss Francs if the credit was initially denominated in Swiss Francs;

- certain refinancing credits (without the fees charged by the creditor), granted by the same creditor (as defined above) as that having made the original loan on which the borrower is in default, provided that the refinancing transaction does not lead to such further indebtedness of the borrower, which exceeds the amount reasonable to restore their solvency; and
- certain other credit agreements with specific purposes or collaterals as determined therein.

The provisions of the Consumer Credit Order do not apply to those credits provided to refinance a natural person borrower's debts, existing at the time of the Consumer Credit Order coming into force, by a creditor other than that having made the original loan being refinanced, insofar as such a transaction does not lead to an increase in the total amount of the borrower's indebtedness, existing at the time of the refinancing credit under the original loans, and the new credit is (a) denominated in HUF or EUR, or made as a EUR based loan, where the credit was originally disbursed as a EUR-denominated or EUR-based loan, or a loan denominated in a currency other than HUF or EUR; (b) denominated in HUF if the credit was initially denominated in HUF; or (c) denominated in Swiss Francs, or made as a Swiss Francs based loan, if the original credit was denominated in Swiss Francs or made as a Swiss Francs based loan. Limitations set out in the Consumer Credit Order on the amount of repayment instalments under foreign currency denominated loans and the requirements on the internal credit rating policies of creditors, however, will be applicable also to such transactions.

Provisions on internal credit rating procedures

The Consumer Credit Order sets out tightened requirements on the internal credit rating procedures of creditors. The new provisions, inter alia, impose an obligation on them to assess the creditworthiness of the natural-person borrower in each and every case.

Creditors falling within the scope of the Consumer Credit Order are obliged to adopt internal rules and regulations on credit rating, especially in relation to determining procedures and methods for the establishment of credit limits for natural-person borrowers, and should also determine what information the borrower shall provide in order to determine its credit rating. The calculation of such limits has to be based on the income of the natural-person borrowers and the credit limits based on such incomes. In case of mortgage-backed loans, the creditor must take into account the necessary, sufficient and proportionate information in relation to the borrower's financial and economic circumstances and its expenditures.

Further, creditors must provide natural-person borrowers, before the assessment of their creditworthiness, with the guidance published on the website of the MNB on the risks associated with excessive indebtedness.

Tightened regime for the calculation and disclosure of the APR

As regards the calculation and disclosure of the APR, Government Order No. 83/2010 (III. 25.) on the determination, calculation and disclosure of the annual percentage rate of charge (the "APR Order"), implementing the relevant provisions of the Credit Consumer Directive, also takes Hungary beyond the content of EU standards. As opposed to the Consumer Credit Directive, the scope of the more stringent APR regime also covers loans secured by a mortgage on property, which are to be granted to consumer borrowers (as defined in the Consumer Credit Act) on the territory of Hungary. The APR Order, inter alia, significantly broadens the scope of those expenses which must be included in the total cost of credit also in respect of such loans. These expenses include, but are not limited to:

- (a) fees and commissions payable to credit intermediaries (if employed);
- (b) charges for ancillary services, especially fees for account maintenance and transfers, known by the creditor and the costs of those services tied to the consumer credit by contract (where applicable); and

- (c) costs of proceedings before the land registry office (where applicable).

In relation to the calculation of the APR, it should also be taken into account if the repayment of the loan agreement is in compliance with the term of the loan agreement.

APR cap on retail credits and pricing restrictions in respect of retail mortgage loans

The Consumer Credit Act provides, inter alia:

- (a) prohibiting financial institutions from granting any loan (except for Household Credits (as defined below)) to consumers the APR of which exceeds a maximum threshold corresponding to the base rate (published by the MNB and prevailing on the day immediately preceding the relevant half calendar year) plus 24 per cent. points;
- (b) the imposition of a cap corresponding to the base rate (published by the MNB and prevailing on the day immediately preceding the relevant half calendar year) plus 39 per cent. points on APRs that may be applied by financial institutions in respect of current account overdrafts, credit lines attached to credit cards or loans provided to finance the purchase of common household equipment items (except for cars), durable consumer goods or everyday household services and loans secured by a pledge on assets, which are in each case granted to consumers (the “**Household Credits**”).

In addition, the Consumer Credit Act foresees further restrictions on the ability of financial institutions to set their prices and recoup their costs in respect of loans granted to consumers by, inter alia, limiting:

- (a) the manner in which financial institutions may set and modify interest rates applied to such loans to, unless otherwise provided by legislative instruments, (i) linking such interest rates to publicly available reference rates or reference yields specified in the Consumer Credit Act, or (ii) fixing such interest rates for statutorily determined interest periods;
- (b) the grounds on which financial institutions may modify margins applied over statutory reference rates to the detriment of borrowers under such loans to the grounds set out in the Consumer Credit Act;
- (c) the possibility of financial institutions charging regular costs, fees and other interest-like charges to borrowers under such loans and the extent to which irregular charges or costs on such loans may be increased; and
- (d) any modifications in the prices (which is only permitted in case the Consumer Credit Act permits or in case the parties expressly stated such possible modifications in the loan agreements).

If the conditions for the unilateral modification of the loan agreement allow for a reduction of the interest rate, the margin, the cost or the fee, the creditor must apply it as part of its contractual obligation towards the consumer.

If a loan with a maturity of up to 3 years for its entire term has (a) a fixed interest rate or (b) a floating interest rate, then the term of the credit and the interest rate may not be modified unilaterally by the financial institution.

In case of a reference interest rate, the reference interest rate shall be adjusted to the reference rate valid for 2 days prior to the last business day of the month preceding the reference date of the reference period specified in the credit agreement. The financial institution may modify for the maximum of 5 times the reference rate (as published on the website of the MNB).

Other than the interest, the financial institution can only set or modify those costs and expenses at the expense of the consumer, which are specified in the loan agreement or otherwise are sufficient or necessary for the consumer.

In case of late performance by the consumer, the financial institution may, for the duration of the delay, charge to the consumer a maximum amount capped at plus 3 per cent. of the one-and-a-half times the interest rate of the transaction interest rate specified in the loan agreement, which shall not be more than the maximum amount of the APR as set out in the loan agreement.

EU Directive on retail residential lending

On 4 February 2014, the European Parliament and the Council published the Directive 2014/17/EU on credit agreements for consumers relating to residential immovable property (the “**Mortgage Credit Directive**”), which covers credit agreements secured by a mortgage or another security interest, loans to purchase a property and certain credits for financing the renovation of a property.

The Mortgage Credit Directive introduces stringent pre-contractual information requirements to consumers on available mortgage products, in particular with respect to foreign currency credits, and an obligation on the part of creditors to appropriately assess the retail borrowers’ ability to repay the relevant credit, taking into account their personal circumstances, on the basis of sufficient information. It also regulates a duty for creditors to assess the credit worthiness of mortgage applicants so as to ensure that borrowers can meet their repayment obligations. The Mortgage Credit Directive also establishes business conduct principles that ensure that lenders and credit intermediaries act honestly and transparently in the consumer’s interests. The Mortgage Credit Directive was implemented into Hungarian law by various laws, including the Consumer Credit Act, the New Civil Code and the Credit Institutions Act.

Income based repayment instalments

To further enhance the protection of the consumers and to increase the confidence in the lending industry, another recent legislation imposed restrictions on the amount of the loan and the repayment instalments by adopting MNB Order No. 32/2014. (IX. 10.), effective from 1 January 2015. Such order establishes that in case of a HUF-denominated mortgage-backed loan, the total amount of the loan shall not exceed 80 per cent. of the value of the real estate at the time of the credit application. In respect of EUR-denominated mortgage-backed loans, such amount shall not exceed 50 per cent. of the value of the real estate and in case of other currencies, 35 per cent. is the applicable rate.

The income based repayment instalment is a ratio defined as being the monthly debt service to the net monthly income of the consumer. If the net monthly income is less than HUF 400.000, the income based repayment instalment shall not be more than 50 per cent. in case of a HUF-denominated loan, 25 per cent. in case of an EUR-denominated loan and 10 per cent. in respect of other currencies. If the net monthly income is equal to or more than HUF 400.000, the income based repayment instalment shall not be more than 60 per cent. in case of a HUF-denominated loan, 30 per cent. in case of an EUR-denominated loan and 15 per cent. in respect of other currencies.

Other protective measures

The scope of Act XXXVIII of 2014 on the decision of the Supreme Court on the settlement of certain issues related to consumer loan agreements of financial institutions are consumer loan agreements entered into between 1 May 2004 and the date of entry into force of the act. Pursuant to the act, a condition that stipulates different exchange rate from the one applicable at the time of the disbursement is null and void. Furthermore, in case the loan agreement contains the possibility of a unilateral right of amendment, then it shall be presumed that such clause is unfair in relation to provisions of increase in interest rate, costs and expenses.

The Ministry of National Economy also introduced a couple of orders important in respect of the protection of the consumers’ position. Order No. 56/2014. (XII. 31.) regulates the rules concerning information obligations towards the consumer, while Order No. 3/2016. (I. 7.) establishes such information obligations in relation to mortgage-backed loans.

The most popular initiation aimed to consumers was introduced by Government Order No. 16/2016. (II. 10.) and 17/2016. (II. 10.) (the so called “CSOK” in Hungarian), a special discount and support for families for purchasing real estates, involving certain obligations in childbearing.

In order to encourage married couples for bearing and upbringing children, the State offers from July 1 2019 them a loan on favourable terms with an interest subsidy and a child bearing support. Based on the Government Order No. 44/2019. (III.112.) the maximum amount of the loan is 10 million HUF for a maximum duration of 20 years. For those taking the loan a prepayment fee or cost shall not be charged. In certain cases, the supported can ask for the repayment to be suspended for a period of time. The supported do not pay an interest or costs for the loan during the interest subsidy period, but the Treasury will pay it to the credit institutions instead of them. The amount of support will be cleared between the credit institution and the Treasury and the credit institution will receive a 0.3 – 0.8 per cent. cover for the expenses.

Other restrictions

The Consumer Credit Act, the New Civil Code and the Credit Institutions Act lay down the rights of financial institutions to effect unilateral amendments to existing loan agreements and financial lease agreements entered into between credit institutions and retail customers.

The Credit Institutions Act imposes certain restrictions on the provision of small-amount credits with significantly high APRs, as well as on the way of taking security interests in relation to agreements concluded with consumers.

With respect to the latter restriction, agreements concluded with consumers which provide the financial institution with a purchase option for security purposes in respect of residential property are rendered null and void in-so-far as the consumer obligor habitually lives in the so pledged property.

Legislative and Financial Measures Intended to Stabilise the Markets as a Response to the Global Financial Crisis

Financial Measures

New monetary policy instruments

In response to the global financial crisis, the MNB introduced several monetary policy instruments, such as swap and credit facility tenders aiming to enhance EUR and HUF liquidity in the Hungarian banking sector.

International Financial Reporting Standards

Government Order No. 1387/2015. (VI. 12.) has established the obligation for all credit institutions and certain financial institutions from 1 January 2017 and from 1 January 2018 for all financial institutions to prepare their financial statements based on IFRS.

One of the main benefits of IFRSs is the improvement of the country’s competitiveness, making it more accessible for international capital markets. The most important advantages of applying the IFRS are the comparability and transparency of financial statements, furthermore, it better reflects to complex transactions and is constantly updated to reflect market changes. Acceptance of IFRS can contribute to making Hungary more attractive and competitive, as IFRS can help open the market for foreign investors and capital markets.

Enhanced Deposit Insurance and other funds

In response to the financial crisis, with effect from 1 January 2011, the guarantee provided by the National Deposit Insurance Fund (in Hungarian: “Országos Betétbiztosítási Alap”) (the “Fund I”) on the so called “registered” (in Hungarian: “névre szóló”) bank account deposits (as defined in the Credit Institutions Act)

placed with domestic credit institutions (being members of the Fund I) was extended to an aggregate amount of EUR 100,000 per person.

The Investor Protection Fund (the “**Fund II**”) was funded in 14 April 1997 with a membership of every entity that is authorised to conduct activities under the MNB, as supervision authority. The operation of the Fund II is regulated by the Capital Markets Act and is responsible for paying the amount of compensation for investors determined by the Capital Markets Act as being such secured liabilities which are based on agreements concluded with the member of the Fund II and the investor after 1 July 1997 in relation to assets (securities, money) registered under the name of the investor but in the possession of the member of the Fund II.

The Resolution Fund (the “**Fund III**”) is financed by credit institutions and investment firms and was founded in order to further strengthen the financial stability in Hungary. With such institution, the costs of the crisis in the financial sector are no longer financed by the taxpayers, but the market participants. Its main task is to bear the costs of the recovery and the institutional crisis management pursuant to Act XXXVII of 2014 on the further development of the system of institutions strengthening the security of the individual players of the financial intermediary system.

The Damage Settlement Fund (the “**Fund IV**”) was established with Act CCXIV of 2015 for maintaining the capital market stability and the trust in the investment service providers. The purpose of Fund IV is to settle claims as defined in Act CCXIV of 2015 and to enforce claims in relation to claims transferred to it.

Legislative Measures

Financial Stabilisation Act

The main legislative step in respect of financial stabilisation was the enactment of Act CIV of 2008 on Enhancing the Stability of the Financial Intermediary System (the “**Financial Stabilisation Act**”). The Financial Stabilisation Act introduced certain stabilisation measures which may be applied to credit institutions having their registered seat in Hungary.

The main measure under the Financial Stabilisation Act is recapitalisation, which may be employed on the recommendation of the Governor of the MNB to inject new capital in the credit institution (a) upon the request or with the approval of the credit institution or (b) ex officio, without the approval of the credit institution. If the recapitalisation is carried out at the request or with the approval of the credit institution, then it shall (i) issue “dividend preference share(s)” and “voting preference share(s) with special veto right” (for details see description below) to the Hungarian State and (ii) conclude an agreement with the Hungarian State which must provide for, amongst other things, the nominal value and the issue value of the two classes of preferential shares, the right of the Hungarian State to delegate board members, limitations on the remuneration of the senior officers of the credit institution until the ownership of the Hungarian State ceases and the detailed rules on exercising the put option and the call option by the respective parties (as indicated below). The dividend preference share(s): (A) entitle the Hungarian State to a priority payment of dividend vis-à-vis other shareholders and in higher amount, (B) are non-voting, (C) include a call option for the credit institution, and (D) include a put option for the Hungarian State towards the credit institution after five years from the issue date of those shares. The Hungarian State cannot otherwise sell these shares. The voting preference share with special veto right may only be issued to the Hungarian State. It does not entitle the holder to dividends, but it provides for a veto right at the shareholders’ meeting with respect to resolutions: (I) on the payment of dividends, (II) which are subject to the approval of the majority of holders of the voting preference share class(es) and (III) which may only be passed with 75 per cent. majority vote. Veto rights may not be exercised against certain types of resolutions detailed in the Financial Stabilisation Act.

Special bank tax

Legislative measures, aimed at enhancing financial stability, imposed a special extra tax levied on certain financial institutions, including credit institutions (the “**Extra Tax**”). Although the original intention was to introduce the Extra Tax for a temporary period between 2010-2012, the tax has become a permanent additional charge for financial institutions. In the case of credit institutions the tax base is the adjusted balance sheet total according to IFRS or to Hungarian accounting rules of the second financial year prior to the actual tax year (the “**Tax Base**”). The Extra Tax is currently levied at 0.15 per cent. of the Tax Base up to HUF 50 billion, whilst a 0.2 per cent. tax rate applies to that part of the Tax Base which exceeds HUF 50 billion.

Transaction duty on the payment services sector

A transaction duty (the “**Payment Transaction Duty**”), a form of special banking tax in all but name, applies to most payment transactions (e.g. transfers, direct debits, most card payments, money remittances, cash withdrawals from payment account, letters of credit, cheque remittances, currency exchange, repayment of loans etc.) with certain exceptions, such as transfers between the payment accounts of an account holder managed by the same payment service provider (including credit institutions), interbank payments (payments through a payment service provider from a payment account held by another payment service provider, financial institution, investment firm, investment fund or investment fund manager). As of 1 January 2019, in case of transfers initiated by private individuals only the amount in excess of HUF 20,000 is subject to Payment Transaction Duty. The charging of fees and commissions by financial service providers is also subject to Payment Transaction Duty.

The Payment Transaction Duty is, in most cases, payable by the payor’s relevant payment service provider (in the case of letters of credit, the Payment Transaction Duty is imposed on the issuing bank, in the case of money remittances, it is payable by the payment service provider used and, as to cheque remittances, by the issuer’s relevant payment service provider). The general tax rate is 0.3 per cent. of the amount by which the payment account of the paying party is charged with the maximum of HUF 6,000 payable per transaction. For cash withdrawals an increased rate of 0.6 per cent. applies without an upper cap. With respect to payments by card, a flat rate of HUF 800 (HUF 500 for contactless cards) applies per card and per annum. Based on the statement of the Hungarian Ministry of Finance, the Hungarian government expects to collect HUF 228,000,000,000 (approx. EUR 709 million) as Payment Transaction Duty in 2019.

Limitations in respect of foreign currency credits

The extensive foreign currency mortgage lending, which was prevalent in the years preceding the global financial crisis, has led to large stocks of foreign currency denominated loans to borrowers without matching foreign currency income. The global financial crisis and the consequential significant depreciation of HUF against foreign currencies (especially in respect of the Swiss Franc) in the period of the global financial crisis have led to materially heavier and excessive debt servicing burdens on the part of households on foreign currency denominated residential mortgage loans, which, in turn, has resulted in increased delinquency rates on such loans, particularly in respect of those denominated in Swiss Francs.

A law introduced certain restrictions on the conversion rates that may be applied by financial institutions in relation to housing loans granted to, and housing financial lease agreements concluded with, consumers, where such loans or the financing provided under such financial lease agreements are accounted, or have been disbursed, in a foreign currency with repayments denominated, and to be fulfilled, in HUF.

An additional law imposed further limitations on the manner in which costs of credit may be charged to borrowers in relation to foreign currency denominated loans granted to consumers and to be serviced in HUF.

The transitional statutory ban on foreign currency denominated retail mortgage lending was lifted with effect from 1 July 2011; nevertheless, foreign currency denominated mortgage lending is still subject to strict

conditions and is limited to lending to those borrowers whose income is denominated in the currency of the respective loan and reaches at least 15 times the mandatory minimum monthly wage.

In addition, legislation introduced, inter alia, an early repayment scheme in respect of mortgage loans and housing financial lease agreements that were secured by real estate located in Hungary, which were granted to consumers and denominated in, or linked to, Swiss Francs, EUR or JPY irrespective of whether the relevant loan was to be serviced in HUF or in the currency in which it is denominated.

Mortgage relief programme

The blanket ban on foreign currency mortgage lending and the statutory moratorium on evictions and enforcement sales outside court enforcement have been replaced by a comprehensive package of measures, which aimed to alleviate increased borrower default on foreign currency denominated residential mortgage loans in a more sustainable manner and to mitigate significant potential distortions in the real estate market, which could have resulted from a large number of simultaneous enforcement actions following the expiry of the statutory moratorium on evictions and enforcement sales outside court enforcement.

Fixed exchange rates for regular repayments on covered foreign currency mortgage loans

Under the scheme (the “**Scheme**”), regular repayments on retail mortgage loans (a) that were (i) denominated in EUR, CHF or JPY, (ii) to be repaid in HUF, and (iii) covered by a mortgage interest in residential real estate situated in the territory of Hungary, and (b) whose principal amount did not exceed HUF 20 million as calculated at the exchange rate applied for the relevant currency at the time of disbursement (the “**Covered Mortgage Loans**”) were, at the option of the relevant borrowers, be calculated at fixed exchange rates set by statute, provided that the relevant borrowers (the “**Eligible Borrowers**”) satisfied the eligibility criteria for participating in the Scheme. The Scheme was available to Eligible Borrowers until 30 June 2017. Following the expiry of the Scheme, the exchange rates, at which repayments on Covered Mortgage Loans were calculated, switched back to market rates.

The statutory fixed exchange rate was set at (a) HUF 180 to the CHF in the case of CHF denominated Covered Mortgage Loans, (b) HUF 250 to the EUR in respect of EUR-denominated Covered Mortgage Loans, and (iii) HUF 250 per JPY 100 for Covered Mortgage Loans denominated in JPY.

Regime for foreclosure proceedings

Various measures were implemented following 2011 with the aim at assisting masses of distressed borrowers and mitigating the material adverse effects, resulting primarily from the significant volatility of the HUF, on the residential mortgage market by including a statutory blanket moratorium on evictions and forced sales outside court enforcement in respect of properties where the relevant obligor had his habitual residence. Currently a general moratorium applies in each year in the period between 15 November and 30 April, during which no court enforcement or non-judicial forced sales may be initiated in respect of residential properties.

National Asset Manager

Act CLXX of 2011 on Ensuring Housing for Those Unable to Fulfil their Obligations under Credit Agreements (the “**Housing Ensuring Act**”) has established a national asset management body (the “**National Asset Manager**”), which operates a mortgage buy-out programme and social housing scheme (the “**Buy-out Programme**”) to support distressed borrowers (who are more than 180 days late on their repayments on their mortgage loans in an amount that exceeds twice the mandatory minimum monthly wage) or mortgagors (if different) with non-performing housing mortgages who face eviction.

Subject to certain conditions, the National Asset Manager may purchase mortgaged residential properties provided that the underlying borrower or, as the case may be, mortgagor is eligible for the benefits available under the Buy-out Programme and each mortgagee creditor, which is a financial institution and has a mortgage

interest in the relevant mortgaged property, has (a) consented to the relevant transaction, and (b) waived all of its claims under the underlying mortgage loan which exceed the proceeds that it receives under the Buy-out Programme from the relevant transaction. The National Asset Manager will purchase only those mortgaged residential properties (i) in which a mortgagee creditor, which is a financial institution, acquired a mortgage interest before 31 December 2013, (ii) whose market value did not exceed at the time of the origination of the underlying mortgage loan (with the highest ranking mortgage interest, if there is more than one underlying mortgage loan) HUF 25 million, if situated in the capital and towns with county status (“*megyei jogú város*”) and HUF 20 million, if located elsewhere in Hungary, (iii) where the loan-to-value ratio reached at least 25 per cent., but did not exceed 90 per cent. (or 100 per cent. if the underlying borrower’s own funds came from government support) at the time of origination, (iv) in which the underlying borrower or, as the case may be, mortgagor has continuously had his habitual residence since 31 December 2014, and (v) which constitute the sole coverage for the underlying mortgage loan(s).

Purchases by the National Asset Manager are subject to monthly and annual caps and allocation rules specified in a legislative order of the Government and may be made only if there is a cooperation agreement in effect between the National Asset Manager and the relevant financial institution in relation to such purchases.

Upon request by the underlying borrower (jointly with the mortgagor, if different) and if the conditions therefore are met, the National Asset Manager will purchase the relevant mortgaged residential property for a price set at 47 per cent. of the market value of the relevant mortgaged property established at the time of the origination of the underlying mortgage loan (with the highest ranking mortgage interest, if there is more than one underlying mortgage loan) in the case of mortgaged residential properties situated in the capital and urban counties, at 43 per cent. in respect of mortgaged residential properties located in other towns and at 29 per cent. if situated elsewhere.

In order for the underlying borrowers or, as the case may be, mortgagors to be eligible for participation in the Buy-out Programme, they must (a) be natural persons (i.e. retail borrowers), (b) meet certain status requirements (such as Hungarian citizenship or registered Hungarian place of residence in the case of EU citizens with the right to free movement and residence, etc), (c) be covered by certain social benefits, and (d) not have an interest (e.g. ownership, leasehold, etc) in another property that would provide adequate accommodation to them and their household.

The properties so purchased by the National Asset Manager will be leased back to the underlying borrowers who will have a right of option to repurchase such properties.

Redenomination of certain overdue foreign currency mortgage loans

In 2012 the Parliament also approved a redenomination scheme in respect of retail mortgage loans (a) which (i) were denominated in EUR, CHF or JPY and to be serviced in HUF, and (ii) have been in arrears for over 90 days since 30 September 2011 in excess of the mandatory monthly minimum net wage as of 30 September 2011, and (b) where the total market value of the underlying mortgaged property did not exceed HUF 20 million (approximately EUR 62 thousand) at the time when the mortgage loan agreement was concluded. The provisions on this redenomination scheme applies *mutatis mutandis* also to retail residential loans. Financial institutions, which were deemed to be creditors under such loans, were required to redenominate such loans into HUF by 31 August 2012 at an exchange rate specified by statute and to waive 25 per cent. of their claims from those loans after such redenomination.

Funding for Growth Scheme

In the period between 2013 and 2017, the MNB applied a programme to facilitate and enhance the lending activities of commercial banks to SMEs and to stimulate the growth of the Hungarian economy. During the lifetime of the programme, the MNB granted 0 per cent. refinancing loans to commercial banks who then in

turn provided fixed interest rate, long term loans to qualifying SMEs for a margin not exceeding 2.5 per cent. The programme was implemented in three phases, whereby in the initial phase the loans were provided to stimulate the lending activities and to refinance the foreign currency denominated loans of the SMEs and in the subsequent phases the loans were provided to finance the new investments of the SMEs. A significant number of such loans is outstanding on the Hungarian financial markets.

Following the successful period of the program between 2013 and 2018, the MNB introduced another credit growth program (similar to the above construction, but only loans with a maturity of at least 3 years may be granted for investment purposes) in 2018 in order to increase the numbers of the long term and fixed rates loans and to further stimulate the growth of the Hungarian lending economy. With the new programme, the MNB does not aim to increase the amount of liquidity in the banking system but to change the credit structure in the SME lending platform.

Recently the MNB announced the start from 1 July 2019 of a programme (Bond Funding for Growth Scheme) which intends to incentivise Hungarian corporations to issue corporate bonds (i.e. instead of taking on bank loans). The programme aims to develop the Hungarian capital markets as well as fund viable growth projects of Hungarian enterprises. The MNB would, through an SPV it is understood, purchase corporate bonds up to an aggregate maximum of HUF 300,000,000,000 (0.7 per cent. of the GDP) which are eligible under an announced criteria.

Integration of the co-operative credit institutions

Recently significant changes have started in the sector of the Hungarian co-operative credit institutions. Due to organic growth and the recent challenges from the banking industry generally, but also partly on the basis of explicit support from the Hungarian Government, a process of integrating the various small co-operative credit institutions was initiated. Such process involves the central bank of the co-operative credit institutions and state-owned other financial institutions as well. As at the date of the Prospectus, it is planned that all the cooperative entities and their central bank will be integrated into one single banking conglomerate by 2020 with the aim to become a major participant in the Hungarian market; other state-owned banks may also join this alliance.

TAXATION

The following summaries do not purport to be a comprehensive description of all tax considerations that could be relevant for Holders. These summaries are intended as general information only and each prospective Holder should consult a professional tax adviser with respect to the tax consequences of an investment in the Notes. These summaries are based on tax legislation and published case law in force as of the date of this document. They do not take into account any developments or amendments thereof after that date, whether or not such developments or amendments have retroactive effect.

Hungary

The following is a general discussion of certain Hungarian tax consequences relating to the acquisition and ownership of Notes. It does not purport to be a comprehensive description of all tax considerations which may be relevant to a decision to purchase Notes, and, in particular, does not consider any specific facts or circumstances that may apply to a particular purchaser. It is based on laws currently in force in Hungary and applicable on the date of this Prospectus, but subject to change, possibly with retrospective effect. The acquisition of the Notes by non-Hungarian Holders, or the payment of interest under the Notes may trigger additional tax payments in the country of residence of the Holder, which is not covered by this overview, but where the provisions of the treaties on the avoidance of double taxation should be taken into consideration. Prospective purchasers of Notes are advised to consult their own tax advisers as to the tax consequences of the purchase, ownership and disposition of Notes, including the effect of any state or local taxes, under the tax laws of Hungary and each country of which they are residents.

Withholding tax (foreign resident corporate Holders)

Interest on Notes paid to a foreign resident corporate Holder, who does not have a permanent establishment in Hungary, by a resident legal entity or other persons and any capital gains realised by such foreign resident Holders on the sale of the Notes is not subject to withholding tax in Hungary.

The tax liability of a foreign resident corporate Holder, which has a permanent establishment in Hungary is limited, in general, to the income from business activities realised through its Hungarian permanent establishment.

Taxation of Hungarian resident corporate Holders

Under Act LXXXI of 1996 on Corporate Tax and Dividend Tax (the “**Corporation Tax Act**”), Hungarian resident taxpayers are subject to tax on their worldwide income. In general, resident taxpayers are entities established under the laws of Hungary (i.e. having a Hungarian registered seat). Foreign persons having their place of management in Hungary are also considered as Hungarian resident taxpayers.

In general, interest and capital gains realised by Hungarian resident corporate Holders on the Notes will be taxable in the same way as the regular income of the Holders. The general corporation tax rate in Hungary is 9 per cent.

Pursuant to Act C of 1990 on Local Taxes (the “**Local Taxes Act**”), financial institutions, financial enterprises, insurance companies and investment enterprises may be subject to local business tax on the basis of the proceeds realised on the Notes.

Foreign Account Tax Compliance Act

Pursuant to certain provisions of the Internal Revenue Code of 1986, commonly known as FATCA, a “foreign financial institution” may be required to withhold on certain payments it makes (“**foreign passthru payments**”)

to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including Hungary) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“IGAs”), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, under proposed U.S. Treasury Regulations, such withholding would not apply prior to the date that is two years after the date on which final regulations defining “foreign passthru payments” are published in the U.S. Federal Register. In the preamble to the proposed regulations, the U.S. Treasury Department indicated that taxpayers may rely on these proposed regulations until the issuance of final regulations. Additionally, Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal income tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining “foreign passthru payments” are filed with the U.S. Federal Register generally would be “grandfathered” for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the Issuer). However, if additional notes (as described under “*Terms and Conditions of the Notes—Further Issues*”) that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

SUBSCRIPTION AND SALE

BNP Paribas, Citigroup Global Markets Limited and OTP Bank Nyrt. (the “**Joint Lead Managers**”) have, pursuant to a Subscription Agreement (the “**Subscription Agreement**”) dated 11 July 2019, jointly and severally agreed to subscribe or procure subscribers for the Notes at the issue price of 99.738 per cent. of their principal amount less a combined management and underwriting commission, subject to the provisions of the Subscription Agreement. The Issuer will also reimburse the Joint Lead Managers in respect of certain of their expenses, and has agreed to indemnify the Joint Lead Managers against certain liabilities incurred in connection with the issue of the Notes. The Subscription Agreement may be terminated in certain circumstances prior to payment of the issue price to the Issuer.

Selling restrictions

United States

The Notes have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Notes are being offered and sold outside of the United States in reliance on Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Prohibition of Sales to EEA Retail Investors

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the EEA. For the purposes of this provision, the expression “retail investor” means a person who is one (or more) of the following:

- (a) a retail client as defined in point (11) of Article (4)1 of MiFID II; or
- (b) a customer within the meaning of the IDD, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

United Kingdom

Each Joint Lead Manager has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the “**FSMA**”)) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Hungary

No approval of this Prospectus has been sought or obtained from the National Bank of Hungary in respect of the Notes, its summary has not and will not be translated into Hungarian and the Notes will not be offered in Hungary in a public offer in accordance with Act CXX of 2001 on the Capital Markets (the “**Capital Markets Act**”). No application has been filed nor has any permission been obtained for accepting, nor has any other arrangement for trading the Notes on any regulated market in Hungary been made. Accordingly, any person

making or intending to make any offer of Notes within Hungary which are the subject of the placement contemplated in this Prospectus should only do so in circumstances in which no obligation arises for the Issuer or any of the Joint Lead Managers to have a prospectus for such offer approved by the National Bank of Hungary. Further to the above, in the event the Notes are offered in a private placement in Hungary, the Joint Lead Managers and the Issuer must comply with the private placement requirements of the Capital Markets Act, in particular, within 15 calendar days following the closure of the placement procedure, the Issuer has agreed that it will submit a notification to the National Bank of Hungary on the private placement.

Italy

The offering of the Notes has not been registered with the *Commissione Nazionale per le Società e la Borsa* (“**CONSOB**”) pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of this Prospectus or of any other document relating to any Notes be distributed in Italy, except, in accordance with any Italian securities, tax and other applicable laws and regulations.

Each Joint Lead Manager has represented and agreed that it has not offered, sold or delivered, and will not offer, sell or deliver any Notes or distribute any copy of this Prospectus or any other document relating to the Notes in Italy except:

- (a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree no. 58 of 24 February 1998 (the “**Financial Services Act**”) and Article 34-ter, paragraph 1, letter (b) of CONSOB regulation No. 11971 of 14 May 1999 (the “**Issuers Regulation**”), all as amended from time to time; or
- (b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Issuers Regulation.

In any event, any offer, sale or delivery of the Notes or distribution of copies of this Prospectus or any other document relating to the Notes in Italy under paragraphs (a) or (b) above must be:

- (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, Legislative Decree no. 385 of 1 September 1993 (the “**Banking Act**”) and CONSOB Regulation no. 20307 of 15 February 2018, all as amended from time to time;
- (ii) in compliance with Article 129 of the Banking Act, as amended from time to time, and the implementing guidelines of the Bank of Italy, as amended from time to time; and
- (iii) in compliance with any other applicable laws and regulations, including any limitation or requirement which may be imposed from time to time by CONSOB or the Bank of Italy or other competent authority.

General

No action has been taken by the Issuer or the Joint Lead Managers that would, or is intended to, permit a public offer of the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, the Joint Lead Managers have undertaken that they will not, directly or indirectly, offer or sell any Notes or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of their knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

GENERAL INFORMATION

Authorisation

The issue of the Notes was duly authorised by a resolution of the Asset Liability Committee of the Issuer passed on 26 June 2019.

Listing

Application has been made to the Luxembourg Stock Exchange for the Notes to be admitted to the Official List of the Luxembourg Stock Exchange and to be admitted to trading on the regulated market of the Luxembourg Stock Exchange. The regulated market of the Luxembourg Stock Exchange is a regulated market for the purposes of MiFID II.

The Issuer estimated expenses relating to admission to trading to be €5,000.

Indication of Yield

Based upon the issue price of 99.738 per cent., the yield of the Notes for the period from (and including) the Issue Date to (but excluding) the Reset Date, is 2.932 per cent. per annum, payable on an annual basis. The yield is calculated as at the Issue Date and is not an indication of future yield.

Clearing systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for this issue is XS2022388586 and the Common Code is 202238858.

The Classification of Financial Instrument (CFI) code (DBFXFR) and the Financial Instrument Short Name (FISN) (OTP BANK NYRT/EUR NT 22001231) code are each as set out on the website of the Association of National Number Agencies (ANNA).

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking S.A., 42 Avenue JF Kennedy, L-1855 Luxembourg.

No significant change and no material adverse change

There has been no significant change in the financial or trading position of the Issuer or the OTP Group since 31 December 2018, and no material adverse change in the financial position or prospects of the Issuer or the OTP Group since 31 December 2018.

Litigation

Neither the Issuer nor any other member of the OTP Group is, or has been, involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this Prospectus which may have or have in such period had a significant effect on the financial position or profitability of the Issuer or the OTP Group.

Auditors

The auditors of the Issuer and the OTP Group are Deloitte Auditing and Consulting Ltd. (000083; Dózsa György u. 84/C, 1068, Budapest, Hungary), who have audited the Issuer's consolidated and separate financial statements, which have been prepared in accordance with International Financial Reporting Standards (as adopted by the European Union) for each of the years ended 31 December 2018 and 2017, respectively. The auditors of the Issuer have no material interest in the Issuer. Deloitte Auditing and Consulting Ltd. are members of the Chamber of Hungarian Auditors.

Documents available

Physical copies of the following documents will be available from the date hereof and for so long as the Notes remain outstanding at the registered office of the Issuer and at the specified office of the Fiscal Agent during normal business hours on any weekday:

- (a) the Fiscal Agency Agreement (which includes the form of the Global Certificate) and the Deed of Covenant;
- (b) the Articles of Association of the Issuer;
- (c) the audited accounts of the Issuer for the financial years ended 31 December 2017 and 31 December 2018 and the Q1 Interim Financial Statements; and
- (d) a copy of this Prospectus together with any supplement to this Prospectus or further Prospectus.

This Prospectus will be published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

Language of this Prospectus

The language of this Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

Conflicts of Interest

The Joint Lead Managers and their respective affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer and its affiliates in the ordinary course of business. In the ordinary course of their business activities, the Joint Lead Managers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer and its affiliates. Where the Joint Lead Managers or their respective affiliates have a lending relationship with the Issuer and/or its affiliates they may routinely hedge their credit exposure to those entities consistent with their customary risk management policies. Typically, the Joint Lead Managers and their respective affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes. Any such short positions could adversely affect future trading prices of the Notes. The Joint Lead Managers and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

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OTP BANK PLC.

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

***FOR THE YEAR ENDED
31 DECEMBER 2018***

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of OTP Bank Plc.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of OTP Bank Plc. (the "Bank") and its subsidiaries (the "Group") for the year 2018 which comprise the consolidated statement of financial position as at December 31, 2018 – which shows total assets of HUF 14,590,288 million –, the related consolidated statement of profit or loss and the consolidated statement of comprehensive income – which shows a net profit for the period of HUF 318,322 million –, consolidated statement of changes in equity, and the consolidated statement of cash-flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2018 and of its consolidated financial performance and its consolidated cash-flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (the "EU IFRS"), and the consolidated financial statements were prepared in all material respects in accordance with the provisions of the effective Hungarian Act C of 2000 on Accounting (the "Accounting Act") relevant to the entities preparing consolidated financial statements in accordance with EU IFRS.

Basis for Opinion

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

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

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

Key Audit Matters

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

Key audit matter	How our audit addressed the matter
Calculation of expected credit losses on corporate and retail loans	
<p>(See notes 8., 24., and 28.1. to the consolidated financial statements for the details)</p> <p>As described in the notes to the consolidated financial statements, the impairment losses have been determined in accordance with IFRS 9 <i>Financial Instruments</i>, which is a new accounting standard which requires significant professional judgement to determine the expected credit losses (“ECLs”). At the year end, the Group reported total gross loans of HUF 8,751,957 million and provisions for impairment on loan losses of HUF 685,364 million. The determination of the ECL of loans is considered a key audit matter, as it requires application of professional judgement and use of subjective assumptions by management in case of both the application of portfolio based collective impairment models, and determination of individual specific loan loss provision. The most significant assumptions applied in determining the impairment are the following:</p> <ul style="list-style-type: none"> - The interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Bank’s expected credit loss model; - IFRS 9 credit risk staging methodology and application, including the identification of exposures with a significant deterioration in credit quality; - model used for impairment calculations reflecting the characteristics of the portfolio, such as valuation of collateral, probability of default and recovery rates, macroeconomic factors; - the application of assumptions, where there was limited or incomplete data; and - estimation of future cash-flows expected to be realized, including application of scenarios and scenario weights. 	<p>Our response as auditors included:</p> <ul style="list-style-type: none"> - assessment and testing of the modelling techniques and methodology applied by the Group in order to estimate ECLs, and evaluation of its compliance with the requirements of IFRS 9; - evaluating the design and testing of the operating effectiveness of internal controls over timely identification of exposures with significant increase in credit risk, monitoring of credit impaired exposures, and calculating, and recording of loan loss provision; - assessing the collective model methodology and testing the calculations in terms of risk parameters (probability of default – PD, loss given default – LGD, expected credit loss – ECL, and macroeconomic factors) applied by the collective models including involving our specialists; - involving our actuarial and valuation experts to assist us in re-performing the calculation of the loss allowance and independently assessing the appropriateness of the assumptions used, the impairment methodologies and policies applied; - assessing on a sample basis, whether the staging and impairment triggers are captured appropriately and whether the estimation of the impairment is reasonable; - sample based testing of individual provision, including the assessment of valuation of collateral and estimation of expected future cash-flows, application of different scenarios and scenario weights and forming an independent view of the adequacy of the loss allowance; and - assessment of the accuracy of the disclosures in the financial statements.

Other Information

Other information comprises the information included in the section called "Management's Analysis" of the annual report and the consolidated business report of the Group which we obtained prior to the date of this auditor's report, and the sections called "Message to the shareholders", "Corporate Governance" and "Macroeconomic and financial environment in 2018" of the annual report, which is expected to be made available to us after that date, but does not include the consolidated financial statements and our independent auditor's report thereon. Management is responsible for the other information and for the preparation of the consolidated business report in accordance with the relevant provisions of the Accounting Act and other regulations. Our opinion on the consolidated financial statements provided in the section of our independent auditor's report entitled "Opinion" does not apply to the other information.

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

Furthermore, in accordance with the Accounting Act, our responsibilities regarding the consolidated business report also include reviewing the consolidated business report to assess whether the consolidated business report was prepared in accordance with the relevant provisions of the Accounting Act and other regulations, if any, including the assessment whether the consolidated business report complies with the requirements of Section 95/B (2) e) and f) of the Accounting Act, and to express an opinion on the above and on whether the consolidated business report is consistent with the consolidated financial statements. Furthermore, in accordance with the Accounting Act we shall make a statement whether the information referred to in Section 95/B. (2) a)-d), g) and h) has been provided in the consolidated business report, and whether the consolidated business report contains the non-financial statement provided for in Section 134 (5).

In our opinion, the consolidated business report of the Group for 2018 corresponds to the consolidated financial statements of the Group for 2018 and the relevant provisions of the Accounting Act in all material respects. The information referred to in Section 95/B. (2) a)-d), g) and h) of the Accounting Act has been provided and the consolidated business report contains the non-financial statement provided for in Section 134 (5).

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

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

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

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

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

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

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

We also:

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment of the Auditor and the Period of Engagement

We were appointed as the auditors of OTP Bank Plc. by the General Meeting of Shareholders on April 13, 2018 and our uninterrupted engagement has lasted for 26 years.

Consistence with the Additional Report to the Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of OTP Bank Plc., which we issued on March 8, 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

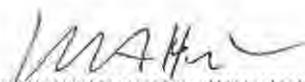
We declare that no prohibited non-audit services referred to in Article 5 (1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Group. In addition, there are no other non-audit services which were provided by us to the OTP Bank Plc. and its controlled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

The engagement partner on the audit resulting in this independent auditor's report is the statutory registered auditor signing this report.

Budapest, March 18, 2019



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



.....
dr. Hruby Attila
Statutory registered auditor
Registration number: 007118

OTP BANK PLC.
CONSOLIDATED FINANCIAL STATEMENTS

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

	Note	2018	2017
Cash, amounts due from banks and balances with the National Banks	4.	1,547,272	1,198,045
Placements with other banks, net of loss allowance for placements	5.	420,606	462,180
Financial assets at fair value through profit or loss	6.	181,356	344,417
Securities at fair value through other comprehensive income	7.	1,883,849	2,174,718
Loans at amortized cost and at fair value	8.	8,066,593	6,987,834
Associates and other investments	9.	17,591	12,269
Securities at amortized cost	10.	1,740,520	1,310,331
Property and equipment	11.	253,773	237,321
Intangible assets and goodwill	11.	166,711	176,069
Investment properties	12.	38,115	35,385
Derivative financial assets designated as hedge accounting	13.	15,201	10,277
Deferred tax assets	13.	20,769	29,419
Other assets	13.	<u>237,932</u>	<u>211,963</u>
TOTAL ASSETS		<u>14,590,288</u>	<u>13,190,228</u>
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	14.	392,706	472,068
Deposits from customers	15.	11,285,085	10,233,471
Liabilities from issued securities	16.	417,966	250,320
Derivative financial liabilities held for trading	17.	73,316	69,874
Derivative financial liabilities designated as hedge accounting	18.	7,407	17,199
Deferred tax liabilities	18.	6,865	9,271
Other liabilities	18.	498,857	421,942
Subordinated bonds and loans	19.	<u>81,429</u>	<u>76,028</u>
TOTAL LIABILITIES		<u>12,763,631</u>	<u>11,550,173</u>
Share capital	20.	28,000	28,000
Retained earnings and reserves	21.	1,864,204	1,671,879
Treasury shares	22.	(67,999)	(63,289)
Non-controlling interest	23.	<u>2,452</u>	<u>3,465</u>
TOTAL SHAREHOLDERS' EQUITY		<u>1,826,657</u>	<u>1,640,055</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>14,590,288</u>	<u>13,190,228</u>

Budapest, 8 March 2019

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Dr. Sándor Csányi
Chairman and Chief Executive Officer

The accompanying notes to consolidated financial statements on pages 8 to 114 form an integral part of these Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards.

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

	Note	2018	2017
Interest Income:			
Loans		576,053	521,121
Placements with other banks		72,401	42,686
Amounts due from banks and balances with the National Banks		421	1,444
Securities at fair value through other comprehensive income		37,912	34,442
Securities at amortized cost		59,899	56,343
Other		<u>11,272</u>	<u>10,479</u>
Total Interest Income		<u>757,958</u>	<u>666,515</u>
Interest Expense:			
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks		(47,979)	(46,475)
Deposits from customers		(69,387)	(50,995)
Liabilities from issued securities		(6,343)	(5,727)
Subordinated bonds and loans		(2,169)	(2,259)
Other		<u>(7,357)</u>	<u>(7,303)</u>
Total Interest Expense		<u>(133,235)</u>	<u>(112,759)</u>
NET INTEREST INCOME		<u>624,723</u>	<u>553,756</u>
Loss allowance on loans and placements	8.,24.	(39,287)	(40,848)
NET INTEREST INCOME AFTER LOSS ALLOWANCE ON LOANS AND PLACEMENTS		<u>585,436</u>	<u>512,908</u>
Income from fees and commissions	25.	338,081	315,606
Expense from fees and commissions	25.	<u>(60,405)</u>	<u>(54,413)</u>
Net profit from fees and commissions		<u>277,676</u>	<u>261,193</u>
Foreign exchange gains, net		40,615	21,870
Gains on securities, net		1,345	7,930
Gains on financial assets /liabilities measured at fair value through profit or loss		597	-
Dividend income		5,736	4,152
Release of loss allowance on securities at fair value through other comprehensive income and on securities at amortized cost		608	10
Other operating income	26.	39,422	65,469
Other operating expense	26.	<u>(25,995)</u>	<u>(51,240)</u>
Net operating gain		<u>62,328</u>	<u>48,191</u>
Personnel expenses	26.	(251,041)	(213,886)
Depreciation and amortization	11.	(51,475)	(48,988)
Goodwill impairment	11.	(5,962)	(504)
Other administrative expenses	26.	<u>(264,803)</u>	<u>(236,072)</u>
Other administrative expenses		<u>(573,281)</u>	<u>(499,450)</u>
PROFIT BEFORE INCOME TAX		<u>352,159</u>	<u>322,842</u>
Income tax expense	27.	<u>(33,837)</u>	<u>(41,503)</u>
NET PROFIT FOR THE PERIOD		<u>318,322</u>	<u>281,339</u>
From this, attributable to:			
Non-controlling interest		<u>89</u>	<u>197</u>
Owners of the company		<u>318,233</u>	<u>281,142</u>
Consolidated earnings per share (in HUF)			
Basic	37.	<u>1,215</u>	<u>1,074</u>
Diluted	37.	<u>1,215</u>	<u>1,074</u>

The accompanying notes to consolidated financial statements on pages 8 to 114 form an integral part of these Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards.

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

	2018	2017
NET PROFIT FOR THE PERIOD	318,322	281,339
Items that may be reclassified subsequently to profit or loss:		
Fair value adjustment of securities at fair value through other comprehensive income	(29,460)	15,677
Derivative financial instruments designated as cash flow hedge	(9)	-
Net investment hedge in foreign operations	(3,253)	155
Foreign currency translation difference	10,007	(20,535)
Items that will not be reclassified subsequently to profit or loss:		
Fair value changes of equity instruments at fair value through other comprehensive income	9,137	-
Change of actuarial costs related to employee benefits	(65)	(241)
Subtotal	<u>(13,643)</u>	<u>(4,944)</u>
NET COMPREHENSIVE INCOME	<u>304,679</u>	<u>276,395</u>
From this, attributable to:		
Non-controlling interest	(134)	173
Owners of the company	<u>304,813</u>	<u>276,222</u>

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

	Note	Share capital	Capital reserve	Share-based payment reserve	Retained earnings and other reserves ¹	Option reserve	Treasury shares
Balance as at 1 January 2017		<u>28,000</u>	<u>52</u>	<u>28,237</u>	<u>1,476,657</u>	<u>(55,468)</u>	<u>(60,121)</u>
Net profit for the period		-	-	-	281,142	-	-
Other Comprehensive Income		=	=	=	(4,920)	=	-
Total comprehensive income		=	=	=	<u>276,222</u>	=	=
Share-based payment	31.	-	-	3,598	-	-	-
Dividend for the year 2016		-	-	-	(53,200)	-	-
Sale of Treasury shares	22.	-	-	-	-	-	10,342
Treasury shares – loss on sale		-	-	-	(2,839)	-	-
Treasury shares – acquisition	22.	-	-	-	-	-	(13,510)
Payments to ICES holders	21.	=	=	=	(1,380)	=	=
Balance as at 31 December 2017		<u>28,000</u>	<u>52</u>	<u>31,835</u>	<u>1,695,460</u>	<u>(55,468)</u>	<u>(63,289)</u>
Effect of transition due to IFRS 9 application		=	=	=	(51,475)	=	=
Balance as at 1 January 2018		<u>28,000</u>	<u>52</u>	<u>31,835</u>	<u>1,643,985</u>	<u>(55,468)</u>	<u>(63,289)</u>
Net profit for the period		-	-	-	318,233	-	-
Other Comprehensive Income		=	=	=	(13,420)	=	=
Total comprehensive income		=	=	=	<u>304,813</u>	=	=
Purchase of non-controlling interest		-	-	-	-	-	-
Share-based payment	31.	-	-	3,797	-	-	-
Dividend for the year 2017		-	-	-	(61,320)	-	-
Correction due to MRP		-	-	-	156	-	-
Sale of Treasury shares	22.	-	-	-	-	-	21,814
Treasury shares - loss on sale	22.	-	-	-	(2,390)	-	-
Treasury shares - acquisition	22.	-	-	-	-	-	(26,524)
Payments to ICES holders	21.	=	=	=	(1,256)	=	=
Balance as at 31 December 2018		<u>28,000</u>	<u>52</u>	<u>35,632</u>	<u>1,883,988</u>	<u>(55,468)</u>	<u>(67,999)</u>

¹ See details in Note 21, where the Retained earnings and other reserves category contains the capital reserve, share-based payment reserve and option reserve which are part of the equity. The accompanying notes to consolidated financial statements on pages 8 to 114 form an integral part of these Consolidated Financial Statements prepared in accordance with the International Financial Reporting Standards.

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

OPERATING ACTIVITIES	Note	2018	2017
Net profit for the period			
(attributable to the owners of the company)		318,233	281,142
Net accrued interest		(2,434)	28,916
Dividend income		(5,736)	(4,152)
Depreciation and amortization	11.	51,475	48,988
Goodwill impairment	11.	5,962	504
Release of loss allowance on securities	7., 10.	(608)	(10)
Loss allowance on loans and placements	8., 24.	39,287	40,848
Loss allowance on investments	9.	1,232	184
Loss allowance / (Release of loss allowance) / on investment properties	12.	244	(71)
Impairment on tangible and intangible assets		2,262	-
Loss allowance on other assets	13.	944	8,213
(Release of provision) / Provision on off-balance sheet commitments and contingent liabilities	18.	(1,841)	15,957
Share-based payment	2., 31.	3,797	3,598
Unrealized losses on fair value change of securities held for trading		9,128	18,335
Unrealized (gains) / losses on fair value change of derivative financial instruments		(29,525)	11,966
<i>Net changes in assets and liabilities in operating activities</i>			
Net decrease / (increase) in financial assets at fair value through profit or loss	6.	178,542	(89,786)
Net increase in loans at amortized cost before loss allowance for loans and in loans at fair value	8.	(1,166,242)	(456,001)
Net increase in other assets before loss allowance	13.	(26,857)	(10,680)
Net increase in deposits from customers	15.	1,054,945	583,081
Net increase / (decrease) in other liabilities	18.	101,877	(75,769)
Net (increase) / decrease in compulsory reserves at the National Banks	4.	(329,936)	99,391
Income tax paid		<u>(17,377)</u>	<u>(14,797)</u>
Net Cash Provided by Operating Activities		<u>187,372</u>	<u>489,857</u>

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

	Note	2018	2017
INVESTING ACTIVITIES			
Net decrease in placement with other banks before loss allowance for placements	5.	42,811	147,969
Purchase of securities at fair value through other comprehensive income	7.	(1,644,093)	(955,382)
Proceeds from sale of securities at fair value through other comprehensive income	7.	1,896,981	552,351
Net increase in investments in associates	9.	(4,324)	(682)
Net (increase) / decrease in investments in other companies	9.	(1,984)	8,762
Dividends received		5,490	3,739
Purchase of securities at amortized cost	10.	(2,615,632)	(1,166,466)
Redemption of securities at amortized cost	10.	2,188,898	971,786
Purchase of property, equipment and intangible assets	11.	(104,199)	(131,028)
Proceeds from disposals of property, equipment and intangible assets	11.	37,425	22,383
Net (increase) / decrease in investment properties before loss allowance	12.	(2,974)	5,060
Net (increase) / decrease in advances for investments included in other assets	13.	(21)	8
Net cash paid for acquisition	33.	-	(128,588)
Net Cash Used in Investing Activities		<u>(201,622)</u>	<u>(670,088)</u>
FINANCING ACTIVITIES			
Net decrease in amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	14.	(79,905)	(168,108)
Cash received from issuance of securities	16.	224,413	184,636
Cash used for redemption of issued securities	16.	(57,401)	(81,886)
Increase / (Decrease) in subordinated bonds and loans	19.	5,733	(1,250)
Payments to ICES holders	21.	(1,256)	(1,380)
Sale of Treasury shares	22.	7,138	10,342
Purchase of Treasury shares	22.	(14,238)	(16,349)
Dividends paid	21.	(61,164)	(53,191)
Net Cash Provided by / (Used in) Financing Activities		<u>23,320</u>	<u>(127,186)</u>
Net increase / (decrease) in cash and cash equivalents		<u>9,070</u>	<u>(307,417)</u>
Cash and cash equivalents at the beginning of the period		<u>800,689</u>	<u>1,128,610</u>
Foreign currency translation		10,220	(20,504)
Cash and cash equivalents at the end of the period	4.	<u>819,979</u>	<u>800,689</u>

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

NOTE 1: ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS

1.1. General information

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

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

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

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

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

	2018	2017
Domestic and foreign private and institutional investors	98%	98%
Employees	1%	1%
Treasury shares	<u>1%</u>	<u>1%</u>
Total	<u>100%</u>	<u>100%</u>

The Bank’s Registered Capital consists of 280.000.010 pieces of ordinary shares with the nominal value of HUF 100 each, representing the same rights to the shareholders.

The Bank and its subsidiaries (“Entities of the Group“, together the “Group”) provide a full range of commercial banking services through a wide network of 1,411 branches. The Group has operations in Hungary, Bulgaria, Russia, Ukraine, Croatia, Romania, Slovakia, Serbia and Montenegro.

The number of employees at the Group:

	2018	2017
The number of employees at the Group	41,128	41,514
The average number of employees at the Group	41,225	41,127

1.2. Basis of Accounting

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

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

The Group’s presentation and functional currency is the Hungarian Forint (“HUF”).

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

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

The Consolidated Financial Statements have been prepared in accordance with IFRS as adopted by the EU.

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

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

1.2. Basis of Accounting [continued]

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

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

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

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

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

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

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

The Group has elected not to adopt these new standards and amendments to existing standards in advance of their effective dates. The Group anticipates that the adoption of these standards and amendments to existing standards would have no significant impact on the Group’s consolidated financial statements in the period of initial application.

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

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

1.2. Basis of Accounting [continued]

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

Implementation of IFRS 16

The published standard, IFRS 16 Leases, which is not in force as at 31 December 2018 and was not applied earlier by the Group. IFRS 16 will be effective for annual periods beginning on or after 1 January 2019 and has been adopted by the European Union. It supersedes the current standard IAS 17 Leases, interpretation IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

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

The new standard discontinues the differentiation between operating and finance leases in the lessee's books, and requires recognition of right-of-use asset and lease liability regarding all of the lessee's lease agreements. Pursuant to IFRS 16, an agreement is a lease or contains a lease if it transfers the rights to control the use of an identified asset for a given period in exchange for compensation.

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

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

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

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

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

Transition

The Group will use the modified retrospective approach.

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

The Group applies the following practical expedients available:

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

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

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

1.2. Basis of Accounting [continued]

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

Impact of IFRS 16 on the consolidated financial statements

IFRS 16 implementation (Project)

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

Stage I: Analysis of contracts, data collection

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

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

- Office building
- Branch office
- Company car
- ATM space
- IT equipment

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

- Office building ~6 years
- Branch office ~5 years
- Company car ~3 years
- ATM space ~3 years
- IT equipment ~7 years

Stage II: Evaluation of contracts, Calculations

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

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

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

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

Description of adjustments due to implementation of IFRS 16

a) Recognition of lease liabilities

Following the adoption of IFRS 16, the Group will recognise lease liabilities related to leases which were previously classified as "operating leases" in accordance with IAS 17 Leases. These liabilities will be measured at the present value of lease payments as at the date of commencement of the application of IFRS 16. Lease payments shall be discounted using the interest rate implicit in the lease or, if that rate can't be readily determined, the incremental borrowing rate. Interest rate applied by the Group: weighted average lessee's incremental borrowing rate: ~3.68%.

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

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

1.2. Basis of Accounting [continued]

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

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

a) Recognition of lease liabilities [continued]

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

- fixed lease payments less any lease incentives,
- variable lease payments that depend on an index or a rate,
- amounts expected to be payable by the lessee under residual value guarantees,
- the exercise price of a purchase option, if it is reasonably certain that the option will be exercised, and
- payment of contractual penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

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

b) Recognition of right-of-use assets

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

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

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

c) Application of estimates

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

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

Impact on the statement of consolidated financial position

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

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

Estimated financial impact

In HUF million	1 January 2019
Right-of-use asset	46,975
Lease liability	46,677
Cumulative impact recognized as an adjustment to the equity at the date of initial application	-

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

Average weighted amount of the implicit interest rate/incremental borrowing rate applied as at 1 January 2019 to recognize the lease liabilities: ~3.68 %.

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

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

1.2. Basis of Accounting [continued]

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

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

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

Hedge accounting regarding the portfolio of financial assets and liabilities, whose principle has not been adopted by the EU, is still unregulated.

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

The adoption of the these new standards, amendments to the existing Standards and new interpretations would have no significant impact on the Consolidated Financial Statements in the period of initial application.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of Presentation

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

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

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

2.2. Foreign currency translation

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

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

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

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

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.2. Foreign currency translation [continued]

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

2.3. Principles of consolidation

Included in these Consolidated Financial Statements are the accounts of those subsidiaries in which the Bank exercises control. The list of the major fully consolidated subsidiaries, the percentage of issued capital owned by the Bank and the description of their activities is provided in Note 34. However, certain subsidiaries in which the Bank holds a controlling interest have not been consolidated because the effect of consolidating such companies is not material to the Consolidated Financial Statements as a whole (see Note 2.13.).

As the ultimate parent, the Bank is preparing consolidated financial statements of the Group.

2.4. Accounting for acquisitions

Business combinations are accounted for using acquisition method. Any goodwill arising on acquisition is recognized in the Consolidated Statement of Financial Position and accounted for as indicated below.

The acquisition date is the date on which the acquirer effectively obtains control over the acquiree. Before this date, it should be presented as Advance for investments within Other assets.

Goodwill, which represents the residual cost of the acquisition after obtaining the control over the acquiree in the fair value of the identifiable assets acquired and liabilities assumed is held as an intangible asset and recorded at cost less any accumulated impairment losses in the Consolidated Financial Statements.

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

Goodwill acquired in a business combination is tested for impairment annually or more frequently if events or changes in circumstances indicate. The goodwill is allocated to the cost generating units that are expected to benefit from the synergies of the combinations.

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

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

Negative goodwill (gain from bargain purchase), when the interest of the acquirer in the net fair value of the acquired identifiable net assets exceeds the cost of the business combination, is recognized immediately in the Consolidated Statement of Profit or Loss as other income.

2.5. Securities at amortized cost

At reporting dates of Consolidated Financial Statements, securities that the Group holds for contractual cash-flow purposes, and contractual terms of these securities give rise to cash flows that are solely payment of principal and interest on the principal amount outstanding are measured at amortized cost.

The amortisation of any discount or premium on the acquisition of a security at amortized cost is aggregated with other investment income receivable over the term of the investment so that the revenue recognized in each period represents a constant yield on the investment. Securities at amortised cost are accounted for on a trade date basis.

Such securities comprise mainly securities issued by the Hungarian and foreign Governments and corporate bonds.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.6. Financial assets at fair value through profit or loss

2.6.1. Securities held for trading

Investments in securities quoted on active market are accounted for on a trade date basis and are initially measured at fair value. Securities held for trading are measured at subsequent reporting dates at fair value. Unrealized gains and losses on held for trading securities are recognized in profit or loss and included in the Consolidated Statement of Profit or Loss for the period. The Group holds held for trading securities within the business model to obtain short-term gains. Consequently realised and unrealised gains and losses are recognized in the net operating income. The Group applies the FIFO¹ inventory valuation method for securities held for trading. Such securities consist of corporate shares, shares in investment funds, Hungarian and foreign government bonds, discounted treasury bills and other securities.

2.6.2. Derivative financial instruments

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

Derivative financial instruments are accounted for on a trade date basis and are initially measured at fair value and at subsequent reporting dates also at fair value. Fair values are obtained from quoted market prices, discounted cash-flow models and option pricing models as appropriate. The Group adopts multi curve valuation approach for calculating the net present value of future cash-flows – based on different curves used for determining forward rates and used for discounting purposes. It shows the best estimation of such derivative deals that are collateralised as the Group has almost all of its open derivative transactions collateralised.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in profit or loss and are included in the Consolidated Statement of Profit or Loss for the period. Each derivative deal is determined as asset when fair value is positive and as liability when fair value is negative.

Certain derivative transactions, while providing effective economic hedges under the risk management policy of the Group, do not qualify for hedge accounting under the specific rules of IFRS 9 and are therefore treated as derivatives held for trading with fair value gains and losses charged directly to the Consolidated Statement of Profit or Loss.

Foreign currency contracts

Foreign currency contracts are agreements to exchange specific amounts of currencies at a specified rate of exchange, at a spot date (settlement occurs two days after the trade date) or at a forward date (settlement occurs more than two days after the trade date). The notional amount of these spot contracts does not represent the actual market or credit risk associated with these contracts.

Foreign currency contracts are used by the Group for risk management and trading purposes. The risk management foreign currency contracts of the Group were used to hedge the exchange rate fluctuations of loans and deposits to credit institutions denominated in foreign currency.

Foreign exchange swaps and interest rate swaps

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

IRS transactions oblige two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount (the base of the interest calculation). Notional principal is the amount upon which interest rates are applied to determine the payment streams under IRS transactions. Such notional principal amounts often are used to express the volume of these transactions but are not actually exchanged between the counterparties.

IRS transactions are used by the Group for risk management and trading purposes.

¹ First In First Out

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

2.6.2. Derivative financial instruments [continued]

Cross-currency interest rate swaps

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

Equity and commodity swaps

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

Forward rate agreements (FRA)

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

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

Foreign exchange options

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

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

Changes in the fair value of derivatives that are designated and qualify as hedging instruments in fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the Consolidated Statement of Profit or Loss along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. Changes in the fair value of hedging instrument in fair value hedges is charged directly to the Consolidated Statement of Profit or Loss.

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

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

Changes in fair value of derivatives that are designated and qualify as hedging instrument in cash-flow hedges and that prove to be highly effective in relation to the hedged risk are recognized in their effective portion as reserve in Other Comprehensive Income. Amounts deferred in Comprehensive Income are transferred to the Consolidated Statement of Profit or Loss and classified as revenue or expense in the periods during which the hedged assets and liabilities affect the Consolidated Statement of Profit or Loss for the period. The ineffective element of the changes in fair value of hedging instrument is charged directly to the Consolidated Statement of Profit or Loss.

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.8. Offsetting

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

2.9. Embedded derivatives

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

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- A separate financial instrument with the same terms as the embedded derivative would meet the definition of a derivative as a stand-alone instrument; and
- The host instrument is not measured at fair value or is measured at fair value but changes in fair value are recognized in Other Comprehensive Income.;
- If a hybrid contract contains a host that is a financial asset the general accounting rules for classification, recognition and measurement of financial assets are applicable for the whole contract.

2.10. Securities at fair value through other comprehensive income

Securities at fair value through other comprehensive income are held within a business model whose objective is achieved by both collecting of contractual cash flows and selling securities. Furthermore contractual terms of these securities give rise on specified dates to cash flows that are solely payment of principal and interest on the principal amount outstanding

Investments in securities are accounted for on a trade date basis and are initially measured at fair value. Securities at fair value through other comprehensive income are measured at subsequent reporting dates at fair value. Unrealized gains and losses on securities at fair value through other comprehensive income are recognized directly in Other Comprehensive Income, except for interest and foreign exchange gains/losses on monetary items, unless such financial asset at fair value through other comprehensive income is part of an effective hedge. Such gains and losses will be reported when realized in Consolidated Statement of Profit or Loss for the applicable period. The Group applies the FIFO¹ inventory valuation method for securities at fair value through other comprehensive income.

Such securities consist of Hungarian and foreign government bonds, corporate bonds, mortgage bonds, discounted Treasury bills and other securities.

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

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

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

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

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

¹ First In First Out

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

Those Loans and placements with other banks that are accounted at amortized cost, stated at the principal amounts outstanding (including accrued interest), net of allowance for loan or placement losses, respectively. Transaction fees and charges should adjust the carrying amount at initial recognition and be included in effective interest calculation.

Loans and placements with other banks are derecognised when the contractual rights to the cash-flows expire or they are transferred. When a financial asset is derecognised the difference of the carrying amount and the consideration received is recognised in the profit or loss. When a financial asset is derecognised the difference of the carrying amount and the consideration received is recognised in the profit or loss. When the contractual cash flows of a financial asset are modified and the modification does not result in the derecognition of the financial asset the Bank recalculate the gross carrying amount of the financial asset by discounting the expected future cash flows with the original effective interest rate of the asset. The difference between the carrying amount and the present value of the expected cash flows is recognised as a modification gain or loss in the profit or loss.

Interest and amortised cost are accounted using effective interest rate method. When a borrower is unable to meet payments as they fall due or, in the opinion of the Management, there is an indication that a borrower may be unable to meet payments as they fall due, all unpaid penalty interest becomes impaired.

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

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

Loss allowance for loans and placements with other banks represent Management assessment for potential losses in relation to these activities.

Loss allowance for loans and placements with other banks is recognised by the Group based on the expected credit loss model in accordance with IFRS 9. Based on the three stage model loss allowance is recognised at an amount equal to 12-month expected credit loss from the initial recognition. On financial assets with significantly increased credit risk or credit impaired financial assets (based on objective evidences) loss allowance is recognised in amount of lifetime expected credit loss.

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

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

At subsequent measurement the Group recognises impairment gain or loss through “Loss allowance on loan and placement losses” in the Consolidated Statement of Profit or Loss as an amount of expected credit losses or reversal that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised in accordance with IFRS 9.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss shall be reversed by adjusting an loss allowance account. As a result of the reversal the carrying amount shall not exceed the amortised cost, which would be at the date of reversal, if no loss allowance had been made previously. If a financial asset, which previously classified in the first stage, classified subsequently in the second or third stage than loss allowance is adjusted to lifetime expected credit loss. If a financial asset, which previously classified in the second or third stages, classified subsequently in the first stage than loss allowance is adjusted to level of 12 month expected credit.

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

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

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

2.12. Sale and repurchase agreements, security lending

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

In the case of security lending transactions the Group doesn't recognize or derecognize the securities because believes that the transferor retains substantially all the risks and rewards of the ownership of the securities. Only a financial liability or financial receivable is recognized for the consideration amount.

2.13. Associates and other investments

Companies where the Bank has the ability to exercise significant influence are accounted for using the equity method. However, certain associated companies in which the Bank holds a significant interest have not been accounted for in accordance with the equity method because the effect of using the equity method to account for such companies is not material to the Consolidated Financial Statements as a whole.

Unconsolidated subsidiaries and associated companies that were not accounted for using the equity method and other investments where the Bank does not hold a significant interest are recorded according to IFRS 9, when appropriate.

Gains and losses on the sale of investments are determined on the basis of the specific identification of the cost of each investment.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.14. Property and equipment, Intangible assets

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

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

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

Depreciation and amortization on Property and equipment and Intangible assets commence on the day such assets are placed into service.

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

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

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

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

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

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

2.15. Financial liabilities

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.16. Leases

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

The Group as a lessor

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

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

The Group as a lessee

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

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

Applying rules for lessee changed after 1 January 2019 in accordance with IFRS 16. (See 1.2.2.)

2.17. Investment properties

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

2.18. Treasury shares

Treasury shares are shares which are purchased on the stock exchange and the over-the-counter market by the Bank and its subsidiaries and are presented in the Consolidated Financial Position at cost as a deduction from Consolidated Shareholders' Equity.

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

2.19. Interest income and interest expense

Interest income and expenses are recognized in profit or loss in the period to which they relate, using the effective interest rate method. The time-proportional interest income of derivative financial instruments is calculated without using the effective interest method and the positive fair value adjustment of interest rate swaps are also included in interest income. Interest from loans and deposits are accrued on a daily basis. Interest income and expenses include relevant transaction costs and the amortisation of any discount or premium between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

The Group recognizes interest income when assumes that the interest associated with the transaction will flow to the Group and the amount of the revenue can be reasonably measured. All interest income and expense recognized are arising from loans, placements with other banks, securities at fair value through other comprehensive income, securities at amortized cost and amounts due to banks, deposits from customers, liabilities from issued securities, subordinated bond and loans are presented under these lines of financial statements.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.20. Fees and Commissions

Fees and commissions are recognized using the effective interest method referring to loss allowances of IFRS 9, when they relate and have to be included in amortized cost model. Certain fees and commissions that are not involved in the amortized cost model are recognized in the Consolidated Statement of Profit or Loss on an accrual basis based on IFRS 15 Revenue from contracts with customers (see more details in Note 25).

2.21. Dividend income

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

2.22. Income tax

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

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

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

2.23. Off-balance sheet commitments and contingent liabilities

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

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

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

2.24. Share-based payment and employee benefit

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

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.25. Consolidated Statement of Cash-flows

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

2.26. Segment reporting

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

Based on the above, the segments identified by the Group are the business and geographical segments.

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

2.27. Comparative figures

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.27. Comparative figures [continued]

These consolidated financial statements are prepared in accordance with the same accounting policies in all respects as the authorised consolidated financial statements for the year ended 31 December 2017, in accordance with IFRS as adopted by the EU for the year ended 31 December 2017, which were approved on 13 March 2018, excluding the IFRS 9 standard.

IFRS 9

The Management has decided to present comparative figures in accordance with IAS 39 standard. The Group applied the retrospective method to the opening balance sheet as at 31 December 2017.

Classifications by IAS 39	Classifications by IFRS 9	Opening balance according to IAS 39 as at 31 December 2017	Reclassification	Remeasurement due to loss Stage 1	Remeasurement due to loss Stage 2
Placements with other banks	Placements with other banks	462,180	-	(269)	
Held for trading securities	Held for trading securities at fair value through profit or loss	259,263	(3,579)	-	
Available for sale securities	Securities mandatorily at fair value through profit or loss	-	29,206	-	
Securities held-to-maturity	Securities at fair value through other comprehensive income	2,174,718	(34,399)	(2,885)	
Securities total	Securities total	3,744,312	8,933	(2,256)	
Loans at amortized cost	Loans at amortized cost	6,987,834	(21,844)	(9,436)	(20,266)
Loans total	Loans total	6,987,834	1,407	(9,436)	(20,266)
Amounts due to banks	Amounts due to banks	472,068	(20,011)	-	
	Financial liabilities at fair value through profit or loss	-	21,476	-	
	Liabilities total	472,068	1,465	-	
Provision for loan commitments and financial guarantees	Provision for loan commitments and financial guarantees	15,356	-	1,816	1,816

IFRS 15

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

¹ Stage 3 includes POCI category too.

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

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

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

3.1. Loss allowances on financial instruments

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

3.2. Valuation of instruments without direct quotations

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

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

3.3. Provisions

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

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

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

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

3.4. Impairment on goodwill

Goodwill acquired in a business combination is tested for impairment annually or more frequently when there is an indication that the unit might be impaired, in accordance with IAS 36 "Impairment of assets".

The Group calculates the fair value based on discounted cash-flow model. The 5 year period explicit cash-flow model serves as a basis for the impairment test by which the Group defines the impairment need on goodwill based on the strategic factors and financial data of its cash-generating units. In the calculation of the goodwill impairment, also the expectations about possible variations in the amount or timing of those future cash-flows, the time value of money, represented by the current market risk-free rate of interest and other factors are reflected.

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

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

3.5. Business model

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

Business model whose objective is to hold financial assets in order to collect contractual cash flows. Within this business model the Group manages mainly loans and advances and long term securities and other financial assets. Business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Within this business model the Group only manages securities.

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

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

	2018	2017
Cash on hand		
In HUF	172,176	95,113
In foreign currency	<u>233,198</u>	<u>199,102</u>
	<u>405,374</u>	<u>294,215</u>
Amounts due from banks and balances with the National Banks		
Within one year:		
In HUF	58,654	208,200
In foreign currency	<u>1,083,192</u>	<u>695,475</u>
	<u>1,141,846</u>	<u>903,675</u>
Over one year:		
In HUF	-	-
In foreign currency	-	-
	-	-
Accrued interest	<u>52</u>	<u>155</u>
Total	<u>1,547,272</u>	<u>1,198,045</u>
Compulsory reserve set by the National Banks ¹	<u>(727,293)</u>	<u>(397,356)</u>
Cash and cash equivalents	<u>819,979</u>	<u>800,689</u>

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

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

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

	2018	2017
Within one year		
In HUF	43,961	51,447
In foreign currency	<u>290,455</u>	<u>357,849</u>
	<u>334,416</u>	<u>409,296</u>
Over one year		
In HUF	80,459	52,410
In foreign currency	<u>4,416</u>	<u>380</u>
	<u>84,875</u>	<u>52,790</u>
Accrued interest	<u>1,812</u>	<u>162</u>
Loss allowance on placements	<u>(497)</u>	<u>(68)</u>
Total	<u>420,606</u>	<u>462,180</u>

An analysis of the change in the loss allowance on placements with other banks is as follows:

	2018	2017
Balance as at 1 January	68	95
Effect of transition due to IFRS 9 application	269	-
Loss allowance for the period	2,879	53
Release of loss allowance for the period	(2,683)	(77)
Reclassification	(105)	-
Foreign currency translation difference	<u>69</u>	<u>(3)</u>
Closing balance	<u>497</u>	<u>68</u>

Interest conditions of placements with other banks:

	2018	2017
In HUF	(1.0)% - 3.84%	(0.5)% - 3.84%
In foreign currency	(2.28)% - 13.69%	(20.0)% - 14.9%
	2018	2017
Average interest rates on placements with other banks	1.62%	0.98%

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

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

	2018	2017
Securities held for trading		
Government bonds	34,083	113,572
Shares and investment bonds	8,241	11,169
Discounted Treasury bills	1,059	1,169
Interest bearing treasury bills	-	93,806
Other securities	2,164	34,631
Other non-interest bearing securities	<u>4,505</u>	<u>1,248</u>
	<u>50,052</u>	<u>255,595</u>
Accrued interest	<u>387</u>	<u>3,668</u>
	<u>50,439</u>	<u>259,263</u>
Non-trading securities mandatorily at fair value through profit or loss	<u>27,512</u>	-
Total	<u>77,951</u>	<u>259,263</u>
Positive fair value of derivative financial assets held for trading		
	2018	2017
Interest rate swaps held for trading	44,120	33,377
Foreign exchange swaps held for trading	31,994	18,047
CCIRS and mark-to-market CCIRS ¹ held for trading	12,417	16,976
Foreign exchange forward contracts held for trading	2,502	4,998
Other derivative transactions held for trading	<u>12,372</u>	<u>11,756</u>
	<u>103,405</u>	<u>85,154</u>
Total	<u>181,356</u>	<u>344,417</u>
An analysis of securities held for trading portfolio by currency (%):		
	2018	2017
Denominated in HUF (%)	30.1%	67.3%
Denominated in foreign currency (%)	<u>69.9%</u>	<u>32.7%</u>
Total	<u>100.0%</u>	<u>100.0%</u>
An analysis of government bond portfolio by currency (%):		
	2018	2017
Denominated in HUF (%)	19.7%	55.0%
Denominated in foreign currency (%)	<u>80.3%</u>	<u>45.0%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

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

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

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

	2018	2017
Interest rates on securities held for trading	0.01% - 7.5%	0.01% - 9.25%
Average interest rates on securities held for trading	2.25%	2.20%

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

	2018	2017
Within one year		
With variable interest	2,039	2,991
With fixed interest	<u>8,632</u>	<u>136,194</u>
	<u>10,671</u>	<u>139,185</u>
Over one year		
With variable interest	2,198	14,214
With fixed interest	<u>24,437</u>	<u>89,779</u>
	<u>26,635</u>	<u>103,993</u>
Non-interest bearing securities	<u>12,746</u>	<u>12,417</u>
Total	<u>50,052</u>	<u>255,595</u>

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

	2018	2017
Securities at fair value through other comprehensive income		
Government bonds	1,357,248	1,703,665
Discounted Treasury bills	331,880	223,238
Mortgage bonds	81,823	-
Corporate bonds	61,421	174,742
From this:		
Listed securities:		
In HUF	-	84,048
In foreign currency	<u>37,113</u>	<u>49,737</u>
	<u>37,113</u>	<u>133,785</u>
Non-listed securities:		
In HUF	22,885	32,598
In foreign currency	<u>1,423</u>	<u>8,359</u>
	<u>24,308</u>	<u>40,957</u>
Other securities	-	545
Subtotal	<u>1,832,372</u>	<u>2,102,190</u>

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

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

	2018	2017
Non-trading equity instruments measured at fair value through other comprehensive incomes		
<i>Listed securities:</i>		
<i>In HUF</i>	-	1,472
<i>In foreign currency</i>	<u>5,358</u>	<u>76</u>
	<u>5,538</u>	<u>1,548</u>
<i>Non-listed securities:</i>		
<i>In HUF</i>	<u>576</u>	<u>19,419</u>
<i>In foreign currency</i>	24,729	29,186
	<u>25,305</u>	<u>48,605</u>
Subtotal	<u>30,663</u>	<u>50,153</u>
Accrued interest	<u>20,814</u>	<u>22,745</u>
Loss allowance on securities at fair value through other comprehensive income	-	(370)
Securities at fair value through other comprehensive income / Available-for-sale securities	<u>1,883,849</u>	<u>2,174,718</u>
An analysis of securities at fair value through other comprehensive income / available-for-sale by currency (%):		
	2018	2017
Denominated in HUF (%)	57.8%	61.7%
Denominated in foreign currency (%)	<u>42.2%</u>	<u>38.3%</u>
Total	<u>100.0%</u>	<u>100.0%</u>
An analysis of government bonds by currency (%):		
	2018	2017
Denominated in HUF (%)	54.3%	61.4%
Denominated in foreign currency (%)	<u>45.7%</u>	<u>38.6%</u>
Total	<u>100.0%</u>	<u>100.0%</u>
	2018	2017
Interest rates on securities at fair value through other comprehensive income / available-for-sale denominated in HUF	0.01% - 7.5%	0.01% - 7.5%
Interest rates on securities at fair value through other comprehensive income / available-for-sale denominated in foreign currency	0.3% - 20.4%	(0.25)% - 18.2%
	2018	2017
Average interest rates securities at fair value through other comprehensive income / available-for-sale denominated in HUF	1.69%	1.56%
Average interest rates on securities at fair value through other comprehensive income / available-for-sale denominated in foreign currency	2.29%	2.63%

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

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

Interest conditions and the remaining maturities of securities at fair value through other comprehensive income / available-for-sale can be analysed as follows:

	2018	2017
Within one year		
With variable interest	12,300	756
With fixed interest	<u>636,644</u>	<u>615,554</u>
	<u>648,944</u>	<u>616,310</u>
Over one year		
With variable interest	101,829	75,651
With fixed interest	<u>1,081,599</u>	<u>1,410,229</u>
	<u>1,183,428</u>	<u>1,485,880</u>
Non-interest bearing securities	<u>30,663</u>	<u>50,153</u>
Total	<u>1,863,035</u>	<u>2,152,343</u>

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

	2018	2017
Balance as at 1 January	370	305
Effect of transition due to IFRS 9 application	(370)	-
Loss allowance for the period	-	4
Release of loss allowance	-	(11)
Use of loss allowance	-	-
Reclassification from equity investments	-	96
Foreign currency translation difference	-	(24)
Closing balance	≡	<u>370</u>

Certain securities are hedged against interest rate risk. See Note 28.4.

During 2018 the Group didn't sell any of equity instruments designated at fair value through other comprehensive income.

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

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

	2018	2017
Short-term loans and promissory notes (within one year)	2,517,071	2,628,507
Long-term loans and promissory notes (over one year)	<u>6,200,361</u>	<u>5,098,123</u>
	<u>8,717,432</u>	<u>7,726,630</u>
Loss allowance on loans	<u>(685,364)</u>	<u>(738,796)</u>
Loans measured at amortized cost	<u>8,032,068</u>	<u>6,987,834</u>
Non-trading loans at fair value through profit or loss with market risk value adjustment	36,341	-
Accumulated negative changes in fair value due to credit risk	<u>(1,816)</u>	-
Loans measured at fair value through profit or loss	<u>34,525</u>	<u>=</u>
Total loans at amortized cost and at fair value	<u>8,066,593</u>	<u>6,987,834</u>

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

	2018	2017
In HUF	34%	34%
In foreign currency	<u>66%</u>	<u>66%</u>
Total	<u>100%</u>	<u>100%</u>

Interest rates of the loan portfolio are as follows:

	2018	2017
Short-term loans denominated in HUF	0.0% - 37.45%	0.0% - 37.45%
Long-term loans denominated in HUF	0.01% - 38.98%	0.0% - 37.5%
Short-term loans denominated in foreign currency	(0.64)% - 90.0%	(0.67)% - 59.9%
Long-term loans denominated in foreign currency	(0.64)% - 90.0%	(0.67)% - 59.0%
	2018	2017
Average interest rates on loans denominated in HUF	6.87%	7.55%
Average interest rates on loans denominated in foreign currency	7.05%	7.66%

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

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

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

	2018	2017
Balance as at 1 January	738,796	944,273
Effect of transition due to IFRS 9 application	47,626	-
Loss allowance for the period	460,340	413,011
Release of loss allowance	(271,375)	(351,214)
Use of loss allowance	(126,747)	(105,734)
Portional write-off	(126,906)	(57,082)
Increase due to acquisition	-	6,917
Reclassification	26	(1,397)
Partial write-off ¹	(42,998)	(76,947)
Foreign currency translation difference	<u>6,602</u>	<u>(33,031)</u>
Closing balance	<u>685,364</u>	<u>738,796</u>

Movement in loss allowance on loans and placements is summarized as below:

	2018	2017
Loss allowance on placements and gains from write-off and sale of placements	144	228
Loss allowance on loans and gains from write-off and sale of loans	<u>49,923</u>	<u>40,620</u>
Total	<u>50,067</u>	<u>40,848</u>

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

	2018	2017
Investments		
Investments in associates (non-listed)	11,904	7,335
Other investments (non-listed) at cost	<u>11,279</u>	<u>9,338</u>
	<u>23,183</u>	<u>16,673</u>
Loss allowance on investments	<u>(5,592)</u>	<u>(4,404)</u>
Total	<u>17,591</u>	<u>12,269</u>

¹ See details in Note 2.11.

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

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

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

	2018	2017
Balance as at 1 January	4,404	4,330
Loss allowance for the period	1.232	184
Use of loss allowance	-	(13)
Reclassification to securities at fair value through other comprehensive income	(41)	(96)
Foreign currency translation difference	<u>(3)</u>	<u>(1)</u>
Closing balance	<u>5,592</u>	<u>4,404</u>

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

	2018	2017
Government bonds	1,709,343	1,290,630
Corporate bonds	10,068	6
Discounted Treasury bills	-	<u>30</u>
	<u>1,719,411</u>	<u>1,290,666</u>
Accrued interest	<u>24,048</u>	<u>20,381</u>
Loss allowance on securities at amortized cost	<u>(2,939)</u>	<u>(716)</u>
Total	<u>1,740,520</u>	<u>1,310,331</u>

Interest conditions and the remaining maturities of securities at amortized cost can be analysed as follows:

	2018	2017
Within one year		
With variable interest	-	270
With fixed interest	<u>156,552</u>	<u>105,251</u>
	<u>156,552</u>	<u>105,521</u>
Over one year		
With variable interest	-	-
With fixed interest	<u>1,562,859</u>	<u>1,185,145</u>
	<u>1,562,859</u>	<u>1,185,145</u>
Total	<u>1,719,411</u>	<u>1,290,666</u>

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

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

An analysis of securities at amortized cost by currency (%):

	2018	2017
Denominated in HUF (%)	93.1%	91.8%
Denominated in foreign currency (%)	<u>6.9%</u>	<u>8.2%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

	2018	2017
Interest rates of securities at amortized cost with variable interest	-	1.4% - 4.45%
Interest rates of securities at amortized cost with fixed interest	0.5% - 18.0%	1.39% - 14.5%

	2018	2017
Average interest rates on securities at amortized cost	3.98%	4.72%

An analysis of the change in the loss allowance on securities at amortized cost is as follows:

	2018	2017
Balance as at 1 January	716	800
Effect of transition due to IFRS 9 application	2,014	-
Loss allowance for the period	995	15
Release of loss allowance	(783)	(18)
Use of loss allowance	(46)	(93)
Foreign currency translation difference	<u>43</u>	<u>12</u>
Closing balance	<u>2,939</u>	<u>716</u>

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

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

For the year ended 31 December 2018

Cost	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Total
Balance as at 1 January	302,057	226,513	174,585	20,033	723,188
Additions	42,443	30,452	33,878	46,009	152,782
Foreign currency translation differences	(3,210)	3,403	1,200	321	1,714
Disposals	(18,030)	(20,733)	(14,660)	(43,483)	(96,906)
Change in consolidation	9	4	37	1	51
Balance as at 31 December	<u>323,269</u>	<u>239,639</u>	<u>195,040</u>	<u>22,881</u>	<u>780,829</u>

Depreciation and Amortization	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Total
Balance as at 1 January	125,988	58,146	125,664	-	309,798
Charge for the period (without goodwill impairment)	27,245	7,080	17,150	-	51,475
Goodwill impairment	5,962	-	-	-	5,962
Foreign currency translation differences	732	5,229	854	-	6,815
Disposals	(5,577)	(2,233)	(8,187)	-	(15,997)
Change in consolidation scope	8	1	22	-	31
Impairment	<u>2,200</u>	<u>28</u>	<u>33</u>	-	<u>2,261</u>
Balance as at 31 December	<u>156,558</u>	<u>68,251</u>	<u>135,536</u>	=	<u>360,345</u>

Carrying value

Balance as at 1 January	<u>176,069</u>	<u>168,367</u>	<u>48,921</u>	<u>20,033</u>	<u>413,390</u>
Balance as at 31 December	<u>166,711</u>	<u>171,388</u>	<u>59,504</u>	<u>22,881</u>	<u>420,484</u>

An analysis of the intangible assets for the year ended 31 December 2018 is as follows:

Intangible assets	Self-developed	Other	Total
Gross values	5,924	219,617	225,541
Depreciation and amortization	<u>1,975</u>	<u>148,621</u>	<u>150,596</u>
Carrying value	<u>3,949</u>	<u>70,996</u>	<u>74,945</u>

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

Goodwill	
Gross balance as at 1 January	101,489
Additions	-
Foreign currency translation difference	(3,761)
Disposals	-
Balance as at 31 December	<u>97,728</u>
Goodwill	
Impairment as at 1 January	513
Additions	5,962
Foreign currency translation difference	-
Disposals	(513)
Balance as at 31 December	<u>5,962</u>

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

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

For the year ended 31 December 2018 [continued]

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

Carrying value	Goodwill
Balance as at 1 January	<u>100,976</u>
Balance as at 31 December	<u>91,766</u>

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

List of units	HUF mn
JSC "OTP Bank" (Russia)	38,048
DSK Bank EAD	28,541
OTP banka Hrvatska d.d.	18,664
OTP Bank Romania S.A.	6,388
Other ¹	<u>125</u>
Total	<u>91,766</u>

The Bank decided that the recoverable amount is determined based on fair value less cost of disposal. When the Bank prepares goodwill impairment tests of the subsidiaries, two methods are used based on discounted cash-flow calculation that shows the same result; however they represent different economical logics. On one hand is the free cash-flow method (FCF) that calculates the value of the subsidiaries by discounting their expected cash-flow; on the other hand the economic value added (EVA) method estimates the value of the subsidiaries from the initial invested capital and the present value of the economic profit that the companies are expected to generate in the future.

On the basis of the opinion of the Bank's Management as at 31 December 2018 impairment test was prepared where a three-year cash-flow model was applied with an explicit period between 2019-2021. The basis for the estimation was the financial actual figures for November 2018, while for the three-year explicit period the Bank applied the prognosis for year 2018 accepted by the Management Committee of the subsidiaries and on the basis of this the prepared medium-term (2019-2021) forecasts. When the Bank prepared the calculations for the period 2019-2021, it considered the actual worldwide economic situations, the expected economic growth for the following years, their possible effects on the financial sector, the plans for growing which result from these, and the expected changes of the mentioned factors.

Present value calculation with the FCF method

The Bank calculated the expected cash-flow for the given period based on the expected after tax profit of the companies. For calculating the discount factor as risk free rates in case of OTP Bank JSC (Ukraine) the local interbank interest rate in foreign currency with a period of one year was applied, while in case of the other subsidiaries the ten-year local government bonds in foreign currency or swap yields were considered as presented in the actual macro forecasts. The Bank calculated risk premiums on the basis of information from the country risk premiums that are published on damodaran.com, which were modified with CDS spread in case of OTP Banka Slovensko a.s and Crnogorska komercijalna banka a.d., since according to the Bank's assumption the risk free interest rate includes the country-dependent risks in an implicit way.

The growth rate in the explicit period is the growth rate of the profit after tax adjusted by the interest rate of the cash and subordinated loans. The supposed growth rates for the periods of residual values reflect the long-term economic expectations in case of every country.

The values of the subsidiaries in the FCF method were then calculated as the sum of the discounted cash-flows of the explicit period, the present value of the terminal values and the initial free capital assuming an effective capital structure.

Present value calculation with the EVA method

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

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

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

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

For the year ended 31 December 2018 [continued]

Summary of the impairment test for the year ended 31 December 2018

Based on the valuations of the subsidiaries as at 31 December 2018 HUF 229 million goodwill impairment for OTP Real Estate Lease Ltd. and HUF 5,733 million for Monicomp Ltd were needed to book on Group level.

For the year ended 31 December 2017

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

Depreciation and Amortization	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Total
Balance as at 1 January	138,185	54,026	126,138	-	318,349
Charge for the year (without goodwill impairment)	27,081	7,400	14,507	-	48,988
Goodwill impairment	504	-	-	-	504
Foreign currency translation differences	(1,067)	(555)	(1,155)	-	(2,777)
Disposals	<u>(38,715)</u>	<u>(2,725)</u>	<u>(13,826)</u>	<u>-</u>	<u>(55,266)</u>
Balance as at 31 December	<u>125,988</u>	<u>58,146</u>	<u>125,664</u>	<u>-</u>	<u>309,798</u>

Carrying value

Balance as at 1 January	<u>162,031</u>	<u>143,887</u>	<u>37,147</u>	<u>12,451</u>	<u>355,516</u>
Balance as at 31 December	<u>176,069</u>	<u>168,367</u>	<u>48,921</u>	<u>20,033</u>	<u>413,390</u>

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

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

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

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

	Goodwill
Impairment as at 1 January	-
Additions	504
Foreign currency translation difference	9
Disposals	-
Balance as at 31 December	<u>513</u>

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

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

For the year ended 31 December 2017 [continued]

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

Carrying value	Goodwill
Balance as at 1 January	<u>104,282</u>
Balance as at 31 December	<u>100,976</u>

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

List of units	HUF mn
JSC "OTP Bank" (Russia)	42,182
DSK Bank EAD	28,541
OTP banka Hrvatska d.d.	18,004
OTP Bank Romania S.A.	6,162
Monicomp Ltd.	5,733
Other ¹	<u>354</u>
Total	<u>100,976</u>

Summary of the impairment test for the year ended 31 December 2017

Based on the valuations of the subsidiaries 504 million HUF goodwill impairment was needed on Group level for OTP Banka Slovensko a.s. as at 31 December 2017.

NOTE 12: INVESTMENT PROPERTIES (in HUF mn)

An analysis of the change in gross values of investment properties is as follows:

Gross values	2018	2017
Balance as at 1 January	50,887	44,847
Increase due to transfer from inventories or owner-occupied properties	11,249	5,879
Increase due to transfer from held-for-sale properties	649	44
Increase from purchase	553	660
Additions due to acquisition	-	3,394
Other additions	1,522	309
Disposal due to transfer to held-for-sale properties	(440)	(137)
Disposal due to transfer to inventories or owner-occupied properties	(4,140)	(1,104)
Disposal due to sale	(12,477)	(1,638)
Other disposal	(1)	(945)
Foreign currency translation difference	<u>1,454</u>	<u>(422)</u>
Closing balance	<u>49,256</u>	<u>50,887</u>

The applied depreciation and amortization keys were the following:

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

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

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

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

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

Depreciation and amortization	2018	2017
Balance as at 1 January	7,422	5,408
Charge for the period	761	781
Additions due to transfer from inventories or owner-occupied properties	-	18
Other increase for the period	-	1,410
Disposal due to sale	(422)	-
Disposal due to transfer to inventories or owner-occupied properties	(801)	(137)
Other disposal for the period	(52)	(62)
Foreign currency translation difference	<u>231</u>	<u>4</u>
Closing balance	<u>7,139</u>	<u>7,422</u>

An analysis of the movement in the impairment on investment properties is as follows:

Impairment	2018	2017
Balance as at 1 January	8,080	9,993
Impairment for the period	451	298
Release of impairment for the period	(207)	(369)
Use of impairment	(4,593)	(1,789)
Foreign currency translation difference	<u>271</u>	<u>(53)</u>
Closing balance	<u>4,002</u>	<u>8,080</u>

Carrying values	2018	2017
Balance as at 1 January	<u>35,385</u>	<u>29,446</u>
Balance as at 31 December	<u>38,115</u>	<u>35,385</u>
Fair values	<u>44,616</u>	<u>40,258</u>

Income and expenses	2018	2017
Rental income	2,945	2,038
Direct operating expenses of investment properties – income generating	75	104
Direct operating expenses of investment properties – non income generating	9	8

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NOTE 13: OTHER ASSETS¹ (in HUF mn)

	2018	2017
Inventories	59,146	60,998
Receivables from card operations	49,265	29,982
Prepayments and accrued income	34,245	32,674
Assets subject to operating lease	23,378	27,798
Current income tax receivable	14,258	14,281
Stock exchange deals	12,092	1,664
Trade receivables	11,821	10,710
Other advances	10,197	10,623
Receivables from investment services	6,985	3,273
Settlement and suspense accounts	4,953	2,330
Giro clearing accounts	4,652	5,699
Due from Hungarian Government from interest subsidies	4,380	4,170
Receivables from leasing activities	1,609	2,096
Receivable from the National Asset Management	1,487	3,130
Receivables due from pension funds and investment funds	989	6,574
Advances for securities and investments	679	658
Other receivables from Hungarian Government	76	115
Loans sold under deferred payment scheme	-	137
Other	<u>25,323</u>	<u>23,646</u>
Subtotal	<u>265,535</u>	<u>240,558</u>
Loss allowance on other assets ²	<u>(27,603)</u>	<u>(28,595)</u>
	<u>237,932</u>	<u>211,963</u>
Fair value of derivative financial assets designated as hedge accounting relationship	15,201	10,277
Deferred tax assets ³	<u>20,769</u>	<u>29,419</u>
Subtotal	<u>35,970</u>	<u>39,696</u>
Total	<u>273,902</u>	<u>251,659</u>

Positive fair value of derivative financial assets designated as fair value and as cash-flow hedge

	2018	2017
Interest rate swaps designated as fair value hedge	5,610	6,639
CCIRS and mark-to-market CCIRS designated as fair value hedge	4,003	3,638
Interest rate swaps designated as cash flow hedge	3,751	-
MIRS ⁴ designated as cash-flow hedge	<u>1,837</u>	-
Total	<u>15,201</u>	<u>10,277</u>

¹ Other assets – except income tax receivable and fair value of derivative financial assets designated as fair value hedge – are expected to be recovered or settled no more than twelve months after the reporting period. Unrealised gains/losses on derivative financial instruments are recovering in accordance with their maturity.

² Loss allowances mostly relates for inventories, held-for-sale properties and prepayments and accrued income.

³ See Note 27.

⁴ Monetary policy interest rate swaps.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 13: OTHER ASSETS (in HUF mn) [continued]

An analysis of the movement in the loss allowance on other assets is as follows:

	2018	2017
Balance as at 1 January	28,595	28,073
Effect of transition due to IFRS 9 application	(218)	-
Loss allowance for the period	(47)	5,674
Use of loss allowance	(1,107)	(6,599)
Reclassification	79	1,677
Foreign currency translation difference	301	(230)
Closing balance	<u>27,603</u>	<u>28,595</u>

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

	2018	2017
Within one year		
In HUF	50,887	80,188
In foreign currency	<u>127,394</u>	<u>115,852</u>
	<u>178,281</u>	<u>196,040</u>
Over one year		
In HUF	124,512	187,062
In foreign currency	<u>56,406</u>	<u>87,988</u>
	<u>180,918</u>	<u>275,050</u>
Accrued interest	1,276	978
	<u>360,475</u>	<u>472,068</u>
Financial liabilities at fair value through profit or loss		
Within one year in HUF	3,321	-
Over one year in HUF	<u>28,809</u>	=
	<u>32,130</u>	=
Accrued interest	<u>101</u>	=
	<u>32,231</u>	=
Total	<u>392,706</u>	<u>472,068</u>

A reconciliation of the carrying amount of financial liabilities designated as fair value through profit or loss is as follows:

	2018	2017
Contractual amount	30,810	-
Fair value adjustment due to market risk	<u>1,321</u>	=
Carrying amount	<u>32,231</u>	<u>=</u>

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

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

	2018	2017
Within one year		
In HUF	(15.0)% - 2.67%	(18.0)% - 0.9%
In foreign currency	(0.8)% - 21.5%	(0.6)% - 7.2%
Over one year		
In HUF	0.0% - 2.67%	0.0% - 3.8%
In foreign currency	0.0% - 21.5%	(0.27)% - 16.3%
	2018	2017
Average interest rates on amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks denominated in HUF	2.21%	1.90%
Average interest rates on amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks denominated in foreign currency	1.71%	1.79%

NOTE 15: DEPOSITS FROM CUSTOMERS (in HUF mn)

	2018	2017
Within one year		
In HUF	4,890,623	4,314,972
In foreign currency	<u>6,092,428</u>	<u>5,568,663</u>
	<u>10,983,051</u>	<u>9,883,635</u>
Over one year		
In HUF	251,723	215,869
In foreign currency	<u>38,967</u>	<u>119,292</u>
	<u>290,690</u>	<u>335,161</u>
Accrued interest	<u>11,344</u>	<u>14,675</u>
Total	<u>11,285,085</u>	<u>10,233,471</u>

Interest rates on deposits from customers are as follows:

	2018	2017
Within one year		
In HUF	(5.11)% - 9.69%	(5.0)% - 9.69%
In foreign currency	(0.42)% - 23.0%	(0.4)% - 30.0%
Over one year		
In HUF	0.0% - 9.96%	0.0% - 10.10%
In foreign currency	0.0% - 17.57%	0.0% - 16.0%

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 15: DEPOSITS FROM CUSTOMERS (in HUF mn) [continued]

	2018	2017
Average interest rates on deposits from customers denominated in HUF	0.11%	0.18%
Average interest rates on deposits from customers denominated in foreign currency	0.75%	0.80%

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

	2018		2017	
Retail deposits	6,829,172	61%	6,106,809	60%
Corporate deposits	3,863,176	34%	3,487,198	34%
Municipality deposits	<u>581,393</u>	<u>5%</u>	<u>624,789</u>	<u>6%</u>
Total	<u>11,273,741</u>	<u>100%</u>	<u>10,218,796</u>	<u>100%</u>

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

	2018	2017
With original maturity		
Within one year		
In HUF	46,506	12,098
In foreign currency	<u>5,049</u>	<u>7,064</u>
	<u>51,555</u>	<u>19,162</u>
Over one year		
In HUF	362,856	228,015
In foreign currency	<u>88</u>	<u>310</u>
	<u>362,944</u>	<u>228,325</u>
Accrued interest	<u>3,467</u>	<u>2,833</u>
Total	<u>417,966</u>	<u>250,320</u>

Interest rates on liabilities from issued securities are as follows:

	2018	2017
Issued securities denominated in HUF	0.2% - 9.48%	0.2% - 9.48%
Issued securities denominated in foreign currency	0.6% - 7.0%	0.0% - 8.1%
	2018	2017
Average interest rates on issued securities denominated in HUF	2.33%	3.23%
Average interest rates on issued securities denominated in foreign currency	1.66%	0.55%

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

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

	Name	Date of issue	Maturity	Nominal value (in HUF mn)	Interest conditions (actual interest rate in % p.a.)		Hedged
1	OTP 2019/Ax	25/06/2009	01/07/2019	211	indexed	NaN	hedged
2	OTP 2019/Bx	05/10/2009	14/10/2019	286	indexed	NaN	hedged
3	OTP 2019/Cx	14/12/2009	20/12/2019	238	indexed	NaN	hedged
4	OTP 2019/Dx	22/03/2013	21/03/2019	3,470	indexed	NaN	hedged
5	OTP 2019/Ex	28/06/2013	24/06/2019	2,812	indexed	0.60	hedged
6	OTP 2020/Ax	25/03/2010	30/03/2020	251	indexed	NaN	hedged
7	OTP 2020/Bx	28/06/2010	09/07/2020	267	indexed	NaN	hedged
8	OTP 2020/Cx	11/11/2010	05/11/2020	176	indexed	NaN	hedged
9	OTP 2020/Dx	16/12/2010	18/12/2020	177	indexed	NaN	hedged
10	OTP 2020/Ex	18/06/2014	22/06/2020	3,268	indexed	0.70	hedged
11	OTP 2020/Fx	10/10/2014	16/10/2020	2,867	indexed	0.20	hedged
12	OTP 2020/Gx	15/12/2014	21/12/2020	2,493	indexed	0.30	hedged
13	OTP 2021/Ax	01/04/2011	01/04/2021	235	indexed	NaN	hedged
14	OTP 2021/Bx	17/06/2011	21/06/2021	264	indexed	NaN	hedged
15	OTP 2021/Cx	19/09/2011	24/09/2021	241	indexed	NaN	hedged
16	OTP 2021/Dx	21/12/2011	27/12/2021	285	indexed	NaN	hedged
17	OTP 2022/Ax	22/03/2012	23/03/2022	229	indexed	NaN	hedged
18	OTP 2022/Bx	18/07/2012	18/07/2022	201	indexed	1.70	hedged
19	OTP 2022/Cx	29/10/2012	28/10/2022	227	indexed	1.70	hedged
20	OTP 2022/Dx	28/12/2012	27/12/2022	280	indexed	1.70	hedged
21	OTP 2023/Ax	22/03/2013	24/03/2023	353	indexed	1.70	hedged
22	OTP 2023/Bx	28/06/2013	26/06/2023	240	indexed	0.60	hedged
23	OTP 2024/Ax	18/06/2014	21/06/2024	241	indexed	1.30	hedged
24	OTP 2024/Bx	10/10/2014	16/10/2024	324	indexed	0.70	hedged
25	OTP 2024/Cx	15/12/2014	20/12/2024	272	indexed	0.60	hedged
26	OTP 2020/RF/A	12/07/2010	20/07/2020	2,068	indexed	NaN	hedged
27	OTP 2020/RF/B	12/07/2010	20/07/2020	1,203	indexed	NaN	hedged
28	OTP 2020/RF/C	11/11/2010	05/11/2020	2,485	indexed	NaN	hedged
29	OTP 2021/RF/A	05/07/2011	13/07/2021	2,361	indexed	NaN	hedged
30	OTP 2021/RF/B	20/10/2011	25/10/2021	2,534	indexed	NaN	hedged
31	OTP 2021/RF/C	21/12/2011	30/12/2021	464	indexed	NaN	hedged
32	OTP 2021/RF/D	21/12/2011	30/12/2021	323	indexed	NaN	hedged
33	OTP 2021/RF/E	21/12/2011	30/12/2021	58	indexed	NaN	hedged
34	OTP 2022/RF/A	22/03/2012	23/03/2022	1,804		1.70	hedged
35	OTP 2022/RF/B	22/03/2012	23/03/2022	625		1.70	hedged
36	OTP 2022/RF/C	28/06/2012	28/06/2022	166		1.70	hedged
37	OTP 2022/RF/D	28/06/2012	28/06/2022	222		1.70	hedged
38	OTP 2022/RF/E	29/10/2012	31/10/2022	620		1.70	hedged
39	OTP 2022/RF/F	28/12/2012	28/12/2022	468		1.70	hedged
40	OTP 2023/RF/A	22/03/2013	24/03/2023	650		1.70	hedged
41	OJB 2019/I	17/03/2004	18/03/2019	31,516	9.48	fixed	
42	OJB 2019/II	31/05/2011	18/03/2019	1,093	9.48	fixed	
43	OJB 2020/I	19/11/2004	12/11/2020	5,503	9.0	fixed	
	Subtotal			74,071			

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

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

	Name	Date of issue	Maturity	Nominal value		Interest conditions		Hedged
				(in HUF mn)		(actual interest rate in % p.a.)		
44	OJB 2020/II	31/05/2011	12/11/2020	1,486		9.0	fixed	
45	OJB 2021/I	15/02/2017	27/10/2021	114,000		2.0	fixed	
46	OJB 2023/I	05/04/2018	24/11/2023	43,600		1.75	fixed	
47	OJB 2024/A	17/09/2018	20/05/2024	49,307		0.68	floating	
48	OJB 2024/B	18/09/2018	24/05/2024	36,425		0.68	floating	
49	OJB 2024/C	10/10/2018	24/10/2024	91,000		2.50	fix	
50	Other			226				
	Subtotal			336,044				
	Subtotal issued securities in HUF			410,115				
	Unamortized premium			(2,573)				
	Fair value adjustment			1,820				
	Total issued securities in HUF			409,362				

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

	Name	Date of issue	Maturity	Type of FX	Nominal value		Interest conditions		Hedged
					(FX mn)	(HUF mn)	(actual interest rate in % p.a.)		
1	OTP_VK_USD_1_2019/I	16/02/2018	16/02/2019	USD	3.04	855	2.51	floating	
2	OTP_VK_USD_1_2019/II	29/03/2018	29/03/2019	USD	2.83	796	2.60	floating	
3	OTP_VK_USD_1_2019/III	18/05/2018	18/05/2019	USD	2.99	839	2.26	floating	
4	OTP_VK_USD_1_2019/IV	28/06/2018	28/06/2019	USD	2.98	838	2.31	floating	
5	OTP_VK_USD_1_2019/V	06/08/2018	06/08/2019	USD	0.85	238	1.00	indexed	
6	OTP_VK_USD_1_2019/VI	04/10/2018	04/10/2019	USD	2.07	581	1.00	floating	
7	OTP_VK_USD_1_2019/VII	15/11/2018	15/11/2019	USD	0.89	250	1.00	floating	
8	OTP_VK_USD_1_2019/VIII	20/12/2018	20/12/2019	USD	1.50	420	1.00	floating	
9	Other ¹					321			
	Subtotal issued securities in FX					5,138			
	Unamortized premium					(1)			
	Fair value adjustment					=			
	Total issued securities in FX					5,137			
	Accrued interest					3,467			
	Total issued securities					417,966			

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

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

Hedge accounting

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

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

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

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

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

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

NOTE 17: DERIVATIVE FINANCIAL LIABILITIES HELD-FOR-TRADING (in HUF mn)

Negative fair value of derivative financial liabilities held for trading by type of contracts

	2018	2017
Held-for-trading interest rate swaps	27,956	30,453
Held-for-trading foreign exchange swaps	27,120	14,745
Held-for-trading CCIRS and mark-to-market CCIRS	9,165	12,948
Held-for-trading option contracts	3,631	2,675
Held-for-trading foreign exchange forward contracts	2,982	6,731
Held-for-trading forward rate agreements (FRA)	57	-
Held-for-trading forward security agreements	9	3
Held-for-trading other transactions	<u>2,396</u>	<u>2,319</u>
Total	<u>73,316</u>	<u>69,874</u>

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

NOTE 18: OTHER LIABILITIES¹ (in HUF mn)

	2018	2017
Provision on off-balance sheet commitments and contingent liabilities	83,014	78,318
Liabilities from investment services	67,976	52,569
Liabilities from card transactions	46,430	25,213
Accrued expenses	39,125	39,934
Clearing, settlement and suspense accounts	38,797	19,030
Liabilities connected to Cafeteria benefits	37,187	35,028
Accounts payable	35,562	30,805
Salaries and social security payable	25,741	28,220
Current income tax payable	21,402	17,674
Liabilities due to short positions	13,784	5,221
Advances received from customers	12,246	8,274
Liabilities due to refunding assets	9,417	11,101
Liabilities related to housing loans	8,037	7,819
Giro clearing accounts	6,888	12,096
Insurance technical reserve	4,312	3,816
Provision for expected losses due to CHF loans conversion at foreign subsidiaries	2,415	3,539
Loans from government	878	900
Liabilities connected to loans for collection	806	766
Liabilities connected to leasing activities	50	31
Dividend payable	48	83
Other	<u>43,747</u>	<u>40,846</u>
Subtotal	<u>497,862</u>	<u>421,283</u>
Accrued interest	<u>995</u>	<u>659</u>
	<u>498,857</u>	<u>421,942</u>
Fair value of derivative financial liabilities designated as hedge accounting	7,407	17,199
Deferred tax liabilities ²	<u>6,865</u>	<u>9,271</u>
Subtotal	<u>14,272</u>	<u>26,470</u>
Total	<u>513,129</u>	<u>448,412</u>

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

² See Note 27.

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

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

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

	2018	2017
Commitments and guarantees given	28,144	17,000
Pending legal issues and tax litigation	25,930	24,958
Pensions and other post employment defined benefit obligations	12,236	14,324
Provision for expected losses due to CHF loans conversion at foreign subsidiaries	2,415	3,539
Other long-term employee benefits	1,690	1,193
Restructuring	799	1,058
Other provision	<u>14,215</u>	<u>19,785</u>
Total	<u>85,429</u>	<u>81,857</u>

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

	2018	2017
Balance as at 1 January	81,857	54,568
Effect of transition due to IFRS 9 application	4,989	-
Provision for the period	49,032	57,847
Release of provision for the period	(50,873)	(41,890)
Use of provision	(1,457)	(1,036)
Change due to acquisition	-	12,846
Foreign currency translation differences	<u>1,881</u>	<u>(478)</u>
Closing balance	<u>85,429</u>	<u>81,857</u>

The negative fair value of derivative financial liabilities designated as fair value and as cash-flow hedge by type of contracts

	2018	2017
Interest rate swaps designated as fair value hedge	6,458	17,199
Interest rate swaps designated as cash-flow hedge	523	-
CCIRS and mark-to-market CCIRS designated as fair value hedge	352	-
MIRS designated as cash-flow hedge	<u>74</u>	-
Total	<u>7,407</u>	<u>17,199</u>

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

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

	2018	2017
Over one year:		
In foreign currency	<u>81,429</u>	<u>76,028</u>
Total	<u>81,429</u>	<u>76,028</u>

Types of subordinated bonds and loans	2018	2017
Debt securities issued	76,627	76,020
Deposits	<u>4,802</u>	<u>8</u>
Total	<u>81,429</u>	<u>76,028</u>

Interest rates on subordinated bonds and loans are as follows:

	2018	2017
Denominated in foreign currency	2.68% - 5.00%	2.67%

	2018	2017
Average interest rates on subordinated bonds and loans	2.76%	2.88%

Subordinated bonds and loans can be detailed as follows:

Type	Nominal value	Date of issuance	Date of maturity	Issue price	Interest conditions	Interest rate as at 31 December 2018
Subordinated bond	EUR 236.7 million	07/11/2006	Perpetual	99.375%	Three-month EURIBOR + 3%, variable after year 10 (payable quarterly)	2.683%
Subordinated loan	USD 17.0 million	05/06/2018	05/06/2025	100.00%	Bullet repayment, once at the end of the loan agreement	5.00%

NOTE 20: SHARE CAPITAL (in HUF mn)

	2018	2017
Authorized, issued and fully paid:		
Ordinary shares	<u>28,000</u>	<u>28,000</u>

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NOTE 21: RETAINED EARNINGS AND RESERVES¹ (in HUF mn)

These Consolidated Financial Statements are subject to approval by the Shareholders in the Annual General Meeting in April 2019. In 2018 the Bank paid dividends of HUF 61,320 million from the profit of the year 2017, which meant HUF 219 dividend per share payable to the shareholders. In 2019 dividends of HUF 61,320 million are expected to be proposed by the Management from the profit of the year 2018, which means HUF 219 dividend per share payable to the shareholders.

The retained earnings and reserves according to IFRS contains the retained earnings (HUF 592,917 million and HUF 523,019 million) and reserves (HUF 1,271,287 million and HUF 1,148,860 million) as at 31 December 2018 and 2017 respectively. The reserves include mainly the option reserve, other reserves, the fair value adjustment of financial instruments at fair value through other comprehensive income, fair value of hedge transactions, additional reserves of Income Certificates Exchangeable for Shares (“ICES”), changes in equity accumulated in the previous years at the subsidiaries and due to consolidation as well as translation of foreign exchange differences.

In the Consolidated Financial Statement the Group recognizes the non-monetary items at historical cost. The difference between the historical cost of the non-monetary items in forint amount and the translated foreign currencies into the presentation currency using the exchange rate at the balance sheet date, is presented in the shareholders’ equity as a translation difference. The accumulated amounts of exchange differences were HUF (151,439) million and HUF (161,660) million as at 31 December 2018 and 2017 respectively.

	2018	2017
Retained earnings	592,917	523,019
Capital reserve	52	52
Option reserve	(55,468)	(55,468)
Other reserves	79,829	42,971
Fair value of financial instruments measured		
at fair value through other comprehensive income	39,670	59,935
Share-based payment reserve	35,632	31,835
Fair value of derivative financial instruments designated		
as cash-flow hedge	(9)	-
Net investment hedge in foreign operations	(16,288)	(13,034)
Extra reserves	89,935	89,935
Net profit for the period	318,233	281,142
Changes in equity accumulated in the previous years		
at the subsidiaries and due to consolidation	931,140	873,152
Foreign currency translation differences	<u>(151,439)</u>	<u>(161,660)</u>
Retained earnings and other reserves	1,864,204	1,671,879

On 19 October 2006, the Bank sold 14.5 million Treasury shares owned by the Group through an issue of ICES. Within the transaction 10 million shares owned by OTP, and a further 4.5 million shares owned by OTP Group were sold during the underwriting period of ICES on the weighted average market price (HUF 7,080) of the Budapest Stock Exchange. The shares have been purchased by Opus Securities S.A. (“OPUS”), which issued an exchangeable bond with a total face value of EUR 514,274,000 backed by those shares. The exchangeable bonds have been sold at a 32% premium over the selling price of the shares. The EUR denominated exchangeable bonds are perpetual and the investors can exercise the conversion right between years 6 and 10. The bonds carry a fixed coupon of 3.95% during the first 10 years, and thereafter the Issuer has the right to redeem the bonds at face value. Following year 10, the bonds carry a coupon of 3 month EURIBOR +3%. OTP has a discretionary right to cancel the interest payments. The interest payable is non-cumulative.

Due to the conditions described above, ICES was accounted as an equity instrument and therefore any payment was accounted as equity distribution paid to ICES holders.

NOTE 22: TREASURY SHARES (in HUF mn)

	2018	2017
Nominal value (Ordinary shares)	<u>1,848</u>	<u>1,827</u>
Carrying value at acquisition cost	<u>67,999</u>	<u>63,289</u>

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

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

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

Change in number of shares:

	2018	2017
Number of shares as at 1 January	18,274,010	18,216,002
Additions	1,358,018	1,441,203
Disposals	<u>(1,156,195)</u>	<u>(1,383,195)</u>
Closing number of shares	<u>18,475,833</u>	<u>18,274,010</u>

Change in carrying value:

	2018	2017
Balance as at 1 January	63,289	60,121
Additions	14,238	13,510
Disposals	<u>(9,528)</u>	<u>(10,342)</u>
Closing balance	<u>67,999</u>	<u>63,289</u>

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

	2018	2017
Balance as at 1 January	3,465	3,292
Non-controlling interest included in net profit for the period	89	197
Changes due to ownership structure	(11)	110
Effect of transition due to IFRS 9 application	(127)	-
Purchase of non-controlling interest	(752)	-
Foreign currency translation difference	<u>(212)</u>	<u>(134)</u>
Closing balance	<u>2,452</u>	<u>3,465</u>

NOTE 24: LOSS ALLOWANCES ON LOANS AND PLACEMENTS (in HUF mn)

	2018	2017
Loss allowance on loans		
Loss allowance for the period	333,434	355,929
Release of loss allowance	(271,375)	(353,136)
Loan (gains) / losses due to write-off and sale	(20,975)	37,827
Modification gains on loans measured at amortized cost	<u>(1,941)</u>	-
	<u>39,143</u>	<u>40,620</u>
Loss allowance on placements		
Allowance for the period	2,879	53
Release of allowance	(2,683)	(77)
(Gains) / losses on placements due to write-off and sale	<u>(52)</u>	<u>252</u>
	<u>144</u>	<u>228</u>
Loss allowance on loans and placements	<u>39,287</u>	<u>40,848</u>

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

Income from fees and commissions	2018	2017
Fees and commissions related to lending¹	22,915	26,168
Deposit and account maintenance fees and commissions	144,942	126,280
Fees and commissions related to the issued bank cards	60,222	53,093
Fees related to cash withdrawal	34,173	31,189
Fees and commissions related to fund management	20,233	22,517
Fees and commissions related to security trading	19,448	25,005
Insurance fee income	14,946	11,391
Other	<u>21,202</u>	<u>19,963</u>
Fees and commissions from contracts with customers	<u>315,166</u>	<u>289,438</u>
Total	<u>338,081</u>	<u>315,606</u>

Fee type	Nature and timing of obligation settlement, and the significant payment terms	Revenue recognition under IFRS 15
Deposit and account maintenance fees and commissions and fees related to cash withdrawal	<p>The Group provides a number of account management services for both retail and corporate customers in which they charge a fee. Fees related to these services can be typically account transaction fees (money transfer fees, direct debit fees, money standing order fees, etc.), internet banking fees, account control fees (e.g. sms fee), or other fees for occasional services (account statement fees, other administration fees, etc.).</p> <p>Fees for ongoing account management services are charged to the customer's account on a monthly basis. The fees are commonly fix amounts that can be vary per account package and customer category.</p> <p>In the case of the transaction based fees where the services include money transfer the fee is charged when the transaction takes place. The rate of the fee is typically determined in a certain % of the transaction amount. In case of other transaction-based fees (e.g. SMS fee), the fee is settled monthly.</p> <p>In case of occasional services the Group basically charges the fees when the services are used by the customer. The fees can be fixed fees or they can be set in %.</p> <p>The rates are reviewed by the Group regularly.</p>	<p>Fees for ongoing account management services are charged on a monthly basis during the period when they are provided.</p> <p>Transaction-based fees are charged when the transaction takes place or charged monthly at the end of the month.</p>

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

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

Fee type	Nature and timing of obligation settlement, and the significant payment terms	Revenue recognition under IFRS 15
Fees and commission related to the issued bank cards	<p>The Group provides a variety of bank cards to its customers, for which different fees are charged. The fees are basically charged in connection with the issuance of cards and the related card transactions.</p> <p>The annual fees of the cards are charged in advance in a fixed amount for those cards which are in use by the clients. The amount of the annual card fee depends on the type of card.</p> <p>In case of transaction-based fees (e.g. cash withdrawal/payment fee, merchant fee, interchange fee, etc.), the settlement of the fees will take place immediately after the transaction or on a monthly basis. The fee is typically determined in % of the transaction with a fixed minimum amount.</p> <p>For all other cases where the Group provides a continuous service to the customers (e.g. card closing fee), the fees are charged monthly. The fee is calculated in a fix amount.</p> <p>The rates are reviewed by the Group regularly.</p>	<p>Fees for ongoing services are charged on a monthly basis during the period when they are provided.</p> <p>Transaction-based fees are charged when the transaction takes place or charged monthly at the end of the month.</p>
Fees and commissions related to security trading	<p>The Group provides its clients security account management services. Fees will be charged for account management and transactions on accounts.</p> <p>Account management fees are typically charged quarterly or annually. The amount is determined in %, based on the stocks of securities managed by the clients on the account in a given period.</p> <p>Fees for transactions on the securities account are charged immediately after the transaction. They are determined in %, based on the transaction amount.</p> <p>Fees for complex services provided to clients (e.g. portfolio management or custody) are typically charged monthly or annually. The fees are fixed monthly amounts and in some cases a bonus fee are charged.</p>	<p>Fees for ongoing services are charged quarterly or annually during the period when they are provided. The fees are accrued monthly.</p> <p>Transaction-based fees are charged when the transaction takes place.</p>
Fees and commissions related to fund management	<p>Fees from fund management services provided to investment funds and from portfolio management provided to insurance companies, funds. The fee incomes are calculated on the basis of market value of the portfolio and by the fee rates determined in the contracts about portfolio management.</p>	
Net insurance fee income	<p>Due to the fact that the Group rarely provides insurance services to its clients, only acts as an agent, the fee income charged to the customers and fees payable to the insurance company are presented net in the fee income.</p> <p>In addition, agency fee charged for the sale of insurance contracts is also recorded in this line. The fee is charged on a monthly basis and determined in %.</p>	

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 25: NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn) [continued]

Fee type	Nature and timing of obligation settlement, and the significant payment terms	Revenue recognition under IFRS 15
Other	<p>Fees that are not significant in the Group total income are included in Other fees category. Such fees are safe lease, special procedure fee, account rent fee, fee of a copy of document, etc.</p> <p>Other fees may include charges for continuous services or for ad hoc administration services. Continuous fees are charged monthly (e.g., safe lease fees) at the beginning of the period, typically at a fixed rate. Fees for ad hoc services are charged immediately after the service obligation were met, usually in a fixed amount.</p>	<p>Fees for ongoing services are charged on a monthly basis during the period when they are provided.</p> <p>Fees for ad hoc services are charged when the transaction takes place.</p>

Expense from fees and commissions	2018	2017
Fees and commissions related to issued bank cards	24,362	17,119
Interchange fees	10,419	9,114
Fees and commissions related to deposits	4,468	4,603
Insurance fees	4,018	3,116
Fees and commissions paid on loans	3,640	6,951
Fees and commissions related to security trading	3,085	2,609
Cash withdrawal transaction fees	2,541	1,557
Postal fees	898	860
Fees and commissions related to collection of loans	693	869
Money market transaction fees and commissions	136	383
Other	<u>6,145</u>	<u>7,232</u>
Total	<u>60,405</u>	<u>54,413</u>
Net profit from fees and commissions	<u>277,676</u>	<u>261,193</u>

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

Other operating income	2018	2017
Income from loss allowance on loans before acquisition	13,507	9,750
Gains on sale of receivables	5,894	6,899
Gains on transactions related to property activities	1,890	2,093
Gains on transactions related to insurance activity	673	409
Non-repayable assets received	575	584
Negative goodwill due to acquisition	-	32,221
Other income from non-financial activities	<u>16,883</u>	<u>13,513</u>
Total	<u>39,422</u>	<u>65,469</u>

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

Other operating expenses	2018	2017
Non-repayable assets contributed	5,486	4,165
Financial support for sport association and organization of public utility	3,979	7,331
Impairment on tangible and intangible assets	2,262	-
Fine imposed by Competition Authority	1,441	18
Loss allowance on investments ¹	1,232	184
Loss allowance on other assets	862	7,796
Expenses from losses due to foreign currency loan conversion at foreign subsidiaries	377	-
Impairment / (Release of impairment) on investment properties	244	(71)
Impairment for assets subject to operating lease	82	417
(Release of provision) / Provision for off-balance sheet commitments and contingent liabilities	(141)	16,011
Release of provision for expected losses due to foreign currency loan conversion at foreign subsidiaries	(1,700)	(54)
Other	<u>11,871</u>	<u>15,443</u>
Total	<u>25,995</u>	<u>51,240</u>
Other administrative expenses	2018	2017
Personnel expenses		
Wages	191,819	160,262
Taxes related to personnel expenses	39,662	37,645
Other personnel expenses	<u>19,560</u>	<u>15,979</u>
Subtotal	<u>251,041</u>	<u>213,886</u>
Depreciation and impairment of tangible, intangible assets and goodwill impairment²	<u>57,437</u>	<u>49,492</u>
Other administrative expenses	2018	2017
Taxes, other than income tax ³	87,306	80,550
Services	68,476	56,769
Administration expenses	37,027	34,108
Professional fees	32,477	28,122
Rental fees	21,238	18,224
Advertising	<u>18,279</u>	<u>18,299</u>
Subtotal	<u>264,803</u>	<u>236,072</u>
Total	<u>573,281</u>	<u>499,450</u>

¹ See details in Note 9.

² See details in Note 11.

³ Special tax of financial institutions was paid by the Group in the amount of HUF 11,279 million and HUF 9,509 million for the year 2018 and 2017 respectively, recognized as an expense thus decreased the corporate tax base. In the year ended 31 December 2018 financial transaction duty was paid by the Bank in the amount of HUF 57 billion.

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

The table below contains the detailing of the fees for non-audit services:

Deloitte Auditing and Consulting Ltd.

	2018	2017
OTP – annual audit – separate financial statements	52	51
OTP – annual audit – consolidated financial statements	13	13
Other audit based on statutory provisions to OTP Group members	473	412
Other services providing assurance	9	3
Other non-audit services	<u>27</u>	<u>64</u>
Total	574	543

Deloitte Network

	2018	2017
Audit based on statutory provisions	722	616
Other services providing assurance	2	-
Tax consulting services	182	110
Other non-audit services	<u>550</u>	<u>235</u>
Total	1,456	961

NOTE 27: INCOME TAXES (in HUF mn)

The Group is presently liable for income tax at rates between 9% and 35% of taxable income.

Deferred tax is calculated at the income tax rate of 9% in Hungary and Montenegro, 10% in Bulgaria, 12.5% in Cyprus, 15% in Serbia, 16% in Romania, 18% in Ukraine and Croatia, 20% in Russia, 21% in Slovakia, 25% in the Netherlands and 35% in Malta.

The breakdown of the income tax expense is:

	2018	2017
Current tax expense	22,480	16,093
Deferred tax expense	<u>11,357</u>	<u>25,410</u>
Total	<u>33,837</u>	<u>41,503</u>

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

	2018	2017
Balance as at 1 January	20,148	49,359
Effect of transition due to IFRS 9 application	2,678	-
Deferred tax expense in profit or loss	(11,357)	(25,410)
Deferred tax related to items recognized directly in equity and in Comprehensive Income	2,780	(1,947)
Due to acquisition of subsidiary	-	(800)
Foreign currency translation difference	<u>(345)</u>	<u>(1,054)</u>
Closing balance	<u>13,904</u>	<u>20,148</u>

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

A breakdown of the deferred tax assets are as follows:

	2018	2017
Unused tax allowance	5,348	11,489
Difference due to transition to IFRS	4,748	252
Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments	3,714	1,607
Premium and discount amortization on bonds	2,838	3,555
Fair value adjustment of securities at fair value through profit or loss and through other comprehensive income	2,335	3,608
Tax accrual caused by negative taxable income	2,319	7,307
Difference in depreciation and amortization	925	139
Difference due to IFRS 9	505	-
Adjustment from effective interest rate method	465	1,660
Refundable tax in accordance with Acts on Customer Loans	245	2,294
Difference in accounting for leases	32	-
Fair value adjustment of derivative financial instruments	19	303
Amounts unenforceable by tax law	13	-
Loss allowance on investments (Goodwill)	-	1,268
Other	<u>8,639</u>	<u>14,090</u>
Deferred tax asset	<u>32,145</u>	<u>47,572</u>

A breakdown of the deferred tax liabilities are as follows:

	2018	2017
Fair value adjustment of securities at fair value through profit or loss and through other comprehensive income	(7,435)	(10,168)
Deferred tax due to acquisition	(4,461)	(4,608)
Difference in depreciation and amortization	(3,127)	(5,089)
Fair value adjustment of derivative financial instruments	(850)	(1,195)
Difference in accounting for leases	(631)	(769)
Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments	(408)	(406)
Difference due to transition to IFRS	(264)	(2,024)
Temporary differences arising on consolidation	(25)	(785)
Premium and discount amortization on bonds	(1)	(3)
Adjustment from effective interest rate method	-	(176)
Other	<u>(1,039)</u>	<u>(2,201)</u>
Deferred tax liabilities	<u>(18,241)</u>	<u>(27,424)</u>
Net deferred tax asset (net amount presented in the statement of financial positions)	<u>13,904</u>	<u>20,148</u>
Deferred tax assets	<u>20,769</u>	<u>29,419</u>
Deferred tax liabilities	<u>6,865</u>	<u>9,271</u>

OTP BANK PLC.
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NOTE 27: INCOME TAXES (in HUF mn) [continued]

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

	2018	2017
Profit before income tax	352,159	322,842
Income tax expense at statutory tax rates	42,961	37,561

Income tax adjustments due to permanent differences are as follows:

	2018	2017
Deferred use of tax allowance	6,122	10,492
Share-based payment	342	324
Permanent differences from unused tax losses	118	-
Amounts unenforceable by tax law	(17)	-
Difference due to transition to IFRS	(422)	(4,485)
Use of tax allowance in the current year	(4,835)	(6,964)
Other	<u>(10,432)</u>	<u>4,575</u>
Income tax	<u>33,837</u>	<u>41,503</u>
Effective tax rate	<u>9.6%</u>	<u>12.9%</u>

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn)

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

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

28.1. Credit risk

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

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

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan types [continued]

Classification into risk classes

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

- stage 1 – performing assets without significant increase in credit risk since initial recognition
- stage 2 – performing assets with significant increase in credit risk since initial recognition but not credit-impaired
- stage 3 – non-performing, credit-impaired assets
- POCI – purchased or originally credit impaired

In the case of trade receivables, contract assets and lease receivables the Group applies the simplified approach and calculates only lifetime expected credit loss.

Performing (Stage 1) assets include all financial assets in the case of which the events and conditions specified in respect of stage 2 and stage 3 do not exist on the reporting date.

A client or loan must be qualified as default if from the following two conditions, one or both of them occur:

- if the client delays more than 90 days. This is objective criterion.
- there is the possibility that the client won't pay all of its obligation. This condition is examined on the basis of probability criterions of default.

The subject of default qualification is that exposure (on-balance and off-balance) which originates credit risk (so originated from loan commitments, risk-taking contracts).

A financial asset shows significant increase in credit risk, it is became allocated to stage 2, if in respect of which any of the following triggers exist on the reporting date, without fulfilling any of the conditions for the allocation to the non-performing stage (stage 3):

- the payment delay exceeds 30 days,
- it is classified as performing forborne,
- based on individual decision, its currency suffered a significant "shock" since the disbursement of the loan and no hedge position exists in respect thereof,
- the transaction/client rating exceeds a predefined value or falls into a determined range, or compared to the historic value it deteriorates to a predefined degree,
- in the case retail mortgage loans, the loan-to-value ratio exceeds a predefined rate,
- default on another loan of the retail client, if no cross-default exists,
- monitoring classification of corporate and municipal clients above different thresholds defined on group level (without aiming to give an exhaustive list):
 - financial difficulties at the debtor (capital adequacy, liquidity, deterioration of the asset quality),
 - significant decrease of the liquidity or the activity on the active market of the financial asset can be observed,
 - the rating of the client reflects high risk but it is better than the default one,
 - significantly decrease in the value of the recovery from which the debtor would disburse the loan,
 - clients under liquidation.

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan types [continued]

Classification into risk classes [continued]

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

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

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

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

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

An entity shall measure expected credit losses of a financial asset in a way that reflects:

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

Defining the expected credit loss on individual and collective basis

On individual basis:

Individually assessed are the non-retail or micro- and small enterprise exposure of significant amount on a stand-alone basis:

- exposure in stage 3,
- exposure in workout management
- purchased or originated credit-impaired assets which are in accordance with the conditions mentioned above

OTP BANK PLC.
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NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1. Credit risk [continued]

28.1.1. Analysis by loan types [continued]

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

The calculation of impairment must be prepared and approved by the risk management functional areas. The calculation, all relevant factors (AC, original and current EIR, contracted and expected cash flows (from business and/or collateral) for the individual periods of the entire lifecycle, other essential information enforced during the valuation) and the criteria thereof (including the factors underlying the classification as stage 3) must be documented individually, i.e. by receivables.

The impairment of the receivable equals the difference of the receivable's AC (gross book value) on the valuation date and the present value of the receivable's expected cash flows discounted to the valuation date by the exposure's original effective interest rate (EIR) (calculated at the initial recognition, or in the case of variable rate, recalculated due to the last interest rate change).

The estimation of the expected future cash flows should be forward looking, it must also contain the effects of the possible change of macroeconomic outlook.

At least two scenarios must be used for the estimation of the expected cash flow. It should be at least one scenario in which the entity anticipates that realised cash flows will be significantly different from the contractual cash flows. Probability weights must be allocated to the individual scenarios.

The estimation must reflect the probability of the occurrence and non-occurrence of the credit loss, even if the most probable result is the non-occurrence of the loss.

On collective basis:

The following exposures are subject to collective assessment:

- retail exposure irrespective of the amount,
- micro and small enterprise exposures irrespective of the amount,
- all other exposure which are insignificant on a stand-alone basis and not part of the workout management,
- exposure which are not in stage 3, significant on a stand-alone basis,
- purchased or originated credit-impaired assets which are in accordance with the conditions mentioned above

In the collective impairment methodology credit risk and the change of credit risk can be correctly captured by understanding the risk characteristics of the portfolio. In order to achieve this the main risk drivers shall be identified and used to form homogeneous segments having similar risk characteristics. The segmentation is expected to stay stable from month to month however a regular (at least yearly) revision of the segmentation process should be set up to capture the change of risk characteristics. The segmentation must be performed separately for each parameter, since in each case different factors may have relevance.

The Bank's Headquarter Group Reserve Committee stipulates the guidelines related to the collective impairment methodology at group level. In addition, it has right of agreement in respect of the risk parameters (PD - probability of default, LGD - loss given default, EAD – exposure at default) and segmentation criteria proposed by the group members.

OTP BANK PLC.
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NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1. Credit risk [continued]

28.1.1. Analysis by loan types [continued]

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

On collective basis [continued]

The review of the parameters must be performed at least annually and the results should be approved by the Group Reserve Committee. Local Risk Managements are responsible for parameter estimations / updates, macroeconomic scenarios are calculated by OTP Headquarter for each subsidiary and each parameter. Based on the consensus proposal of Local Risk Management and OTP Headquarter, the Group Reserve Committee decides on the modification of parameters (all parameters for impairment calculation).

At least on a yearly basis the impairment parameters should be backtested as well.

The expected loss calculation should be forward looking, including forecasts of future economic conditions. This may be achieved by applying 3-5 different macroeconomic scenarios, which may be integrated in the PD, LGD and EAD parameters.

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan types [continued]

Gross carrying amount and accumulated loss allowance of financial assets at amortized cost and of interest bearing securities at fair value stages as at 31 December 2018:

	Carrying amount	Gross carrying amount / Notional value			Total	Accumulated loss allowance / Stage 1
		Stage 1	Stage 2	Stage 3 ¹		
Placements with other banks	420,606	419,468	1,606	29	421,103	463
Mortgage loans	2,399,184	2,121,746	184,617	275,484	2,581,847	3,415
Loans to medium and large corporates	2,651,852	2,432,280	182,051	194,608	2,808,939	23,083
Consumer loans	1,833,060	1,744,664	127,858	235,098	2,107,620	56,524
Loans to micro and small enterprises	582,012	494,635	78,411	63,866	636,912	5,379
Car-finance loans	296,684	277,750	17,122	16,108	310,980	1,344
Municipal loans	269,276	<u>269,034</u>	<u>1,655</u>	<u>445</u>	271,134	<u>1,634</u>
Loans at amortized cost	8,032,068	7,340,109	591,714	785,609	8,717,432	91,379
Interest bearing securities at fair value through other comprehensive income ²	1,853,186	1,853,186	-	-	1,853,186	3,098
Securities at amortized cost	1,740,520	<u>1,742,754</u>	-	<u>705</u>	1,743,459	<u>2,234</u>
Financial assets total	<u>12,046,380</u>	<u>11,355,517</u>	<u>593,320</u>	<u>786,343</u>	<u>12,735,180</u>	<u>97,174</u>
Loan commitments given	2,008,387	1,988,798	33,881	3,551	2,026,230	14,941
Financial guarantees given	958,859	<u>939,077</u>	<u>22,842</u>	<u>7,150</u>	969,069	<u>6,516</u>
Financial liabilities total	<u>2,967,246</u>	<u>2,927,875</u>	<u>56,723</u>	<u>10,701</u>	<u>2,995,299</u>	<u>21,457</u>

¹ Stage 3 includes POCI category too.

² Interest bearing securities at fair value through other comprehensive income is recognized in the Consolidated statement of financial position as at fair value (see in Note 28.1.1.1) and other comprehensive income is recognized in the Other comprehensive income which is included in the accumulated loss allowance of this table.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1. Credit risk [continued]

28.1.1. Analysis by loan types [continued]

Gross carrying amount and accumulated loss allowance of financial assets at amortized cost and of interest bearing securities at fair value stages as at 31 December 2017:

	Carrying amount	Gross carrying amount / Notional value				Accumulated	
		Stage 1	Stage 2	Stage 3 ¹	Total	Stage 1	Stage 2
Placements with other banks as at 31 December 2017	462,180	462,207	17	24	462,248	43	
Transition effect due to IFRS9 implementation	<u>-269</u>	=	=	=	=	<u>269</u>	
Placements with other banks as at 1 January 2018	461,911	462,207	17	24	462,248	312	
Mortgage loans	2,259,402	1,904,064	221,075	326,597	2,451,736	7,920	6
Loans to medium and large corporates	2,311,454	2,138,009	64,855	318,059	2,520,923	21,780	1
Consumer loans	1,638,523	1,608,317	45,745	244,477	1,898,539	41,766	10
Loans to micro and small enterprises	349,971	313,599	16,576	70,769	400,944	2,261	
Car-finance loans	222,095	216,584	4,005	25,247	245,836	1,737	
Municipal loans	206,389	196,608	5,970	6,074	208,652	923	
Loans at amortized cost as at 31 December 2017	6,987,834	6,377,181	358,226	991,223	7,726,630	76,387	19
Transition effect due to IFRS9 implementation	<u>(71,219)</u>	<u>(20,605)</u>	81	<u>(9,403)</u>	<u>29,927</u>	<u>10,361</u>	<u>20</u>
Loans at amortized cost as at 1 January 2018	6,916,615	6,356,576	358,307	981,820	7,696,703	86,748	40
Interest bearing securities at fair value through other comprehensive income as at 31 December 2017	2,124,565	2,124,778	-	157	2,124,935	213	
Transition effect due to IFRS9 implementation	<u>(10,249)</u>	<u>(10,092)</u>	=	<u>(157)</u>	<u>(10,249)</u>	<u>3,042</u>	
Interest bearing securities at fair value through other comprehensive income as at 1 January 2018²	2,114,686	2,114,686	=	=	2,114,686	3,255	
Securities at amortized cost as at 31 December 2017	1,310,331	1,304,340	6,022	685	1,311,047	-	
Transition effect due to IFRS9 implementation	<u>6,672</u>	<u>8,686</u>	=	=	<u>8,686</u>	<u>2,009</u>	
Securities at amortized cost as at 1 January 2018	1,317,003	1,313,026	6,022	685	1,319,733	2,009	
Financial assets total	10,811,670	10,246,495	364,346	988,796	11,599,637	92,324	40
Loan commitments	1,236,219	1,231,269	12,001	2,284	1,245,554	9,093	
Financial guarantees	821,435	816,973	3,295	7,188	827,456	3,289	
Financial liabilities total as at 31 December 2017	2,057,654	2,048,242	15,296	9,472	2,073,010	12,382	
Transition effect due to IFRS9 implementation	<u>(4,964)</u>	<u>(3,641)</u>	2,099	<u>1,542</u>	=	<u>1,816</u>	
Financial liabilities total as at 1 January 2018	2,052,690	2,044,601	17,395	11,014	2,073,010	14,198	

¹ Stage 3 includes POCI category too.

² Interest bearing securities at fair value through other comprehensive income is recognized in the Consolidated statement of financial position as at fair value (see in Note 28.1.1.1) and other comprehensive income is recognized in the Other comprehensive income which is included in the accumulated loss allowance of this table.

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

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan types [continued]

Movement of loss allowance on financial assets at amortized cost and on interest bearing securities at fair value through other comprehensive income and

	Opening balance	Increases due to origination and acquisition	Decreases due to derecognition	Transfers between stages	Changes due to change in credit risk (net)	Changes due to modifications without derecognition (net)	Decrease in loss allowance account due to write-offs
Stage 1	92,280	72,512	(17,906)	(196,638)	143,939	(2,247)	(45)
Placements with other banks	312	1,204	(9)	-	(1,037)	-	-
Loans at amortized cost	86,748	69,669	(17,670)	(196,638)	146,458	(2,247)	(45)
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost	5,220	1,639	(227)	-	(1,482)	-	-
Stage 2	40,244	7,773	(3,602)	78,714	(54,101)	(940)	(132)
Placements with other banks	1	-	-	-	13	(1)	-
Loans at amortized cost	40,163	7,773	(3,602)	78,714	(54,034)	(939)	(132)
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost	80	-	-	-	(80)	-	-
Stage 3¹	653,886	46,631	(72,208)	117,924	(185,877)	6,507	(51,530)
Placements with other banks	24	-	(2)	-	-	-	-
Loans at amortized cost	653,177	45,926	(72,206)	117,924	(184,904)	6,507	(51,530)
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost	685	705	-	-	(973)	-	-
Loss allowance on financial assets total	<u>786,410</u>	<u>126,916</u>	<u>-93,716</u>	<u>≡</u>	<u>(96,039)</u>	<u>3,320</u>	<u>(51,707)</u>
Loan commitments and financial guarantees given_ stage 1	14,198	4,908	(2,018)	913	1,846	171	-
Loan commitments and financial guarantees given_ stage 2	1,689	1,447	(33)	(1,030)	813	(4)	-
Loan commitments and financial guarantees given_ stage 3	4,433	2,631	(388)	117	(2,932)	(121)	-
Financial liabilities total	<u>20,320</u>	<u>8,986</u>	<u>(2,439)</u>	<u>-</u>	<u>(273)</u>	<u>46</u>	<u>-</u>

¹ Stage 3 includes POCI category too.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1. Credit risk [continued]

28.1.1. Analysis by loan types [continued]

Loan portfolio by countries

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

Country	2018		2017	
	Carrying amount of gross loan at amortized cost and placement with other banks portfolio	Loss allowance	Carrying amount of gross loan at amortized cost and placement with other banks portfolio	Loss allowance
Hungary	3,369,319	154,995	2,988,753	177,834
Bulgaria	1,435,621	126,059	1,280,915	123,673
Croatia	1,282,367	72,827	1,252,800	64,521
Russia	658,205	131,619	588,153	115,064
Romania	622,602	37,917	536,597	42,197
Slovakia	519,264	32,155	382,567	31,563
Serbia	367,995	18,506	355,214	23,248
Ukraine	360,652	77,470	294,181	95,493
Montenegro	169,368	30,153	146,724	43,453
France	55,888	30	30,677	19
Switzerland	51,744	292	4,522	2
United Kingdom	46,183	1,163	64,151	873
Germany	38,102	214	54,110	108
Belgium	31,092	123	12,494	55
United States of America	23,901	42	10,157	22
The Netherlands	19,334	234	4,968	143
Cyprus	19,310	635	41,577	14,117
Turkey	13,148	71	6,235	9
Italy	11,877	129	10,445	33
Austria	10,804	21	29,967	5,251
Australia	6,811	-	155	-
Czech Republic	6,175	104	13,167	14
Poland	4,300	41	2,553	21
Canada	3,306	1	250	807
Norway	2,170	38	8,194	21
Slovenia	1,291	10	309	1
Ireland	1,006	130	401	67
Greece	870	104	455	53
Bosnia and Herzegovina	637	202	1,307	-
Spain	629	12	5,323	1
Sweden	440	43	371	15
Denmark	354	1	113	1
Israel	247	1	4,453	1
Luxembourg	122	1	697	-
Kazakhstan	107	52	130	57
Egypt	90	29	88	6
United Arab Emirates	64	55	23	16
Japan	61	-	623	-
Iceland	49	48	47	34
Latvia	28	15	5	14
Other ¹	<u>3,002</u>	<u>319</u>	<u>54,849</u>	<u>56</u>
Total²	<u>9,138,535</u>	<u>685,861</u>	<u>8,188,720</u>	<u>738,863</u>

¹ Other category as at 31 December 2018 includes e.g.: Macedonia, Algeria, Malta, Saint Vincent, Iran, China, Estonia, Republic of South-Africa, Armenia, Belorussia, Hong Kong, Moldova, Jordan, Tunisia, Syria, Portugal, Morocco, Finland, India, Brazil, , Lithuania.

² It includes the accrued interest receivable too.

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan type [continued]

Loan portfolio by countries [continued]

Country	2018 Loans at fair value
Hungary	32,745
Croatia	<u>1,780</u>
Total	<u>34,525</u>

The loan portfolio increased mostly in Slovakia, Ukraine and Romania however there were no significant decreases in any other countries of Group members. Their stock of loss allowances increased mostly in Russia and Croatia, while the decreasing tendency was the highest in Montenegro and Serbia among the countries of the Group members.

28.1.2. Collateral

The values of collateral held by the Group by type are as follows (**total collateral**). The collateral covers loans as well as off-balance sheet exposures.

Types of collateral	2018	2017
Mortgages	8,650,498	7,330,181
Assignments (revenue or other receivables)	432,671	409,486
Guarantees and warranties	399,206	297,574
Guarantees of state or organizations owned by state	118,495	173,824
Securities	94,724	75,589
Cash deposits	94,593	115,217
Other	<u>1,149,140</u>	<u>949,143</u>
Total	<u>10,939,327</u>	<u>9,351,014</u>

The values of collateral held by the Group by type are as follows (**to the extent of the exposures**). The collaterals cover loans as well as off-balance sheet exposures.

Types of collateral	2018	2017
Mortgages	3,873,185	3,397,094
Assignments (revenue or other receivables)	374,541	340,365
Guarantees and warranties	270,773	180,680
Guarantees of state or organizations owned by state	103,148	155,615
Securities	61,287	48,622
Cash deposits	51,485	45,207
Other	<u>657,228</u>	<u>550,817</u>
Total	<u>5,391,647</u>	<u>4,718,400</u>

The coverage level of the loan portfolio (total collateral) increased by 2.08%, while the coverage level to the extent of the exposures decreased by 0.02% as at 31 December 2018.

OTP BANK PLC.
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NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1. Credit risk [continued]

28.1.3. Restructured loans

	2018		2017	
	Gross portfolio	Loss allowance	Gross portfolio	Loss allowance
Loans to medium and large corporations	33,218	7,863	36,199	1,030
Retail mortgage loans	23,579	3,632	74,087	2,353
Retail consumer loans	11,976	3,823	16,683	617
Loans to micro and small enterprises	5,356	1,171	4,647	239
Other loans	<u>299</u>	<u>64</u>	<u>2,113</u>	<u>296</u>
Total	<u>74,428</u>	<u>16,553</u>	<u>133,729</u>	<u>4,535</u>

The forbore definition used by the Group is based on EBA (EU) 2015/227 regulation.

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

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

28.1. Credit risk [continued]

28.1.4. Financial instruments by rating categories¹

Securities held for trading as at fair value through profit or loss as at 31 December 2018

	Aaa	Aa1	Aa3	A1	A2	A3	Baa1	Baa2	Baa3
Government bonds	277	-	-	-	-	-	-	11,482	11,5
Shares and investment bonds	-	-	25	51	43	6	24	6	1,0
Discounted Treasury bills	-	-	-	-	-	-	-	-	1,4
Other securities	-	71	-	-	-	-	-	-	1,4
Other non-interest bearing securities	=	=	=	=	=	=	=	=	=
Total	<u>277</u>	<u>71</u>	<u>25</u>	<u>51</u>	<u>43</u>	<u>6</u>	<u>24</u>	<u>11,488</u>	<u>14,0</u>
Accrued interest									
Total	<u>277</u>	<u>71</u>	<u>25</u>	<u>51</u>	<u>43</u>	<u>6</u>	<u>24</u>	<u>11,488</u>	<u>14,0</u>

Non-trading securities mandatorily at fair value through profit or loss

	Aaa	Baa2	Baa3	Not rated	Total
Non-trading debt instruments mandatorily at fair value through profit or loss	-	493	788	25	1,3
Non-trading equity instruments mandatorily at fair value through profit or loss	<u>6,755</u>	=	=	<u>19,451</u>	<u>26,2</u>
Total	<u>6,755</u>	<u>493</u>	<u>788</u>	<u>19,476</u>	<u>27,5</u>

¹ Moody's ratings

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

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

28.1. Credit risk [continued]

28.1.4. Financial instruments by rating categories¹ [continued]

Securities at fair value through other comprehensive income as at 31 December 2018

	A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2	Ba3
Government bonds	-	26,911	6,076	30,517	96,522	921,941	55,797	158,258	37,788
Discounted Treasury bills	-	-	-	-	-	282,337	-	49,543	-
Mortgage bonds	-	-	-	53,703	-	-	-	-	-
Corporate bonds	-	-	1,614	-	1,423	32,790	-	437	-
Other non-interest bearing securities	<u>5,503</u>	<u>830</u>	=	=	=	<u>747</u>	=	=	=
Total	<u>5,503</u>	<u>27,741</u>	<u>7,690</u>	<u>84,220</u>	<u>97,945</u>	<u>1,237,815</u>	<u>55,797</u>	<u>208,238</u>	<u>37,788</u>
Accrued interest									
Total									

Securities at amortized cost as at 31 December 2018

	A2	Ba2	Ba3	Baa2	Baa3	B1	Caa1	Not rated
Government bonds	22,945	117	-	3,343	1,619,944	25,075	37,214	705
Corporate bonds	=	<u>2,881</u>	<u>6,753</u>	=	=	=	=	<u>434</u>
Total	<u>22,945</u>	<u>2,998</u>	<u>6,753</u>	<u>3,343</u>	<u>1,619,944</u>	<u>25,075</u>	<u>37,214</u>	<u>1,139</u>
Accrued interest								
Total								

¹ Moody's ratings

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

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

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

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

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

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

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

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

Due to the balance sheet adjustment process (deleveraging) experienced in the last few years, the liquidity reserves of the Group increased significantly while the liquidity risk exposure has decreased considerably. Currently the (over)coverage of potential liquidity risk exposure by high quality liquid assets is very high. In the year ended 31 December 2018 there were no material changes in the liquidity risk management process.

The contractual amounts disclosed in the maturity analyses are the contractual undiscounted cash-flows like gross finance lease obligations (before deducting finance charges); prices specified in forward agreements to purchase financial assets for cash; net amounts for pay-floating/receive-fixed interest rate swaps for which net cash-flows are exchanged; contractual amounts to be exchanged in a derivative financial instrument for which gross cash-flows are exchanged; gross loan commitments.

Such undiscounted cash-flows differ from the amount included in the statement of financial position because the amount in that statement is based on discounted cash-flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the end of the period.

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

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

As at 31 December 2018	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Banks	1,545,507	1,765	-	-	-	1,547,272
Placements with other banks, net of loss allowance for placements	217,194	151,072	32,676	23,305	388	424,635
Securities at fair value through profit or loss	20,227	4,922	11,855	7,082	25,984	70,070
Securities at fair value through other comprehensive income	257,993	412,482	875,882	276,358	25,681	1,848,396
Loans at amortized cost and at fair value	1,022,190	1,981,871	2,777,450	2,757,872	5,792	8,545,175
Associates and other investments	-	-	-	-	17,591	17,591
Securities at amortized cost	60,240	119,592	871,365	610,122	-	1,661,319
Other financial assets ¹	<u>54,275</u>	<u>35</u>	<u>1</u>	-	<u>193</u>	54,504
TOTAL ASSETS	<u>3,177,626</u>	<u>2,671,739</u>	<u>4,569,229</u>	<u>3,674,739</u>	<u>75,629</u>	<u>14,168,962</u>
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	102,833	46,357	155,785	87,741	-	392,716
Deposits from customers	9,995,997	943,409	211,109	141,113	-	11,291,628
Liabilities from issued securities	41,642	6,722	192,865	177,569	-	418,798
Other financial liabilities ²	141,373	333	-	6	967	142,679
Subordinated bonds and loans	<u>719</u>	<u>1,693</u>	<u>9,060</u>	<u>69,961</u>	-	<u>81,433</u>
TOTAL LIABILITIES	<u>10,282,564</u>	<u>998,514</u>	<u>568,819</u>	<u>476,390</u>	<u>967</u>	<u>12,327,254</u>
NET POSITION	<u>(7,104,938)</u>	<u>1,673,225</u>	<u>4,000,410</u>	<u>3,198,349</u>	<u>74,662</u>	<u>1,841,708</u>
Receivables from derivative financial instruments held for trading	1,330,293	396,708	340,219	257,349	-	2,324,569
Liabilities from derivative financial instruments held for trading	<u>(1,631,984)</u>	<u>(691,221)</u>	<u>(424,756)</u>	<u>(513,369)</u>	-	<u>(3,261,330)</u>
Net position of financial instruments held for trading	<u>(301,691)</u>	<u>(294,513)</u>	<u>(84,537)</u>	<u>(256,020)</u>	<u>-</u>	<u>(936,761)</u>
Receivables from derivative financial instruments designated as hedge accounting	27,095	91,548	241,913	45,726	-	406,282
Liabilities from derivative financial instruments designated as hedge accounting	<u>(26,821)</u>	<u>(76,655)</u>	<u>(438,482)</u>	<u>(60,192)</u>	-	<u>(602,150)</u>
Net position of financial instruments designated as hedge accounting	<u>274</u>	<u>14,893</u>	<u>(196,569)</u>	<u>(14,466)</u>	<u>-</u>	<u>(195,868)</u>
Net position of derivative financial instruments total	<u>(301,417)</u>	<u>(279,620)</u>	<u>(281,106)</u>	<u>(270,486)</u>	<u>=</u>	<u>(1,132,629)</u>
Commitments to extend credit	894,592	1,041,823	210,537	40,667	-	2,187,619
Bank guarantees	<u>195,512</u>	<u>173,734</u>	<u>132,467</u>	<u>96,381</u>	2,184	600,278
Off-balance sheet commitments	<u>1,090,104</u>	<u>1,215,557</u>	<u>343,004</u>	<u>137,048</u>	<u>2,184</u>	<u>2,787,897</u>

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

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

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

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

As at 31 December 2017	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Banks	1,198,257	22	-	-	293	1,198,572
Placements with other banks, net of loss allowance for placements	353,289	57,534	67,814	-	1,183	479,820
Securities at fair value through profit or loss	69,004	74,337	93,041	9,833	6,405	252,620
Securities at fair value through other comprehensive income	186,336	459,696	1,029,498	393,069	33,153	2,101,752
Loans at amortized cost and at fair value	858,922	1,483,399	2,651,539	2,450,010	1,090	7,444,960
Associates and other investments	-	-	-	-	12,269	12,269
Securities at amortized cost	62,873	64,141	470,228	666,807	5	1,264,054
Other financial assets ¹	<u>53,131</u>	<u>343</u>	-	-	<u>44</u>	<u>53,518</u>
TOTAL ASSETS	<u>2,781,812</u>	<u>2,139,472</u>	<u>4,312,120</u>	<u>3,519,719</u>	<u>54,442</u>	<u>12,807,565</u>
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	146,667	47,467	124,910	153,089	-	472,133
Deposits from customers	8,864,259	1,032,706	250,209	91,438	-	10,238,612
Liabilities from issued securities	8,758	13,234	223,785	2,092	-	247,869
Other financial liabilities ²	120,620	878	1	0	1,313	122,812
Subordinated bonds and loans	<u>325</u>	<u>2</u>	-	<u>75,701</u>	-	<u>76,028</u>
TOTAL LIABILITIES	<u>9,140,629</u>	<u>1,094,287</u>	<u>598,905</u>	<u>322,320</u>	<u>1,313</u>	<u>11,157,454</u>
NET POSITION	<u>(6,358,817)</u>	<u>1,045,185</u>	<u>3,713,215</u>	<u>3,197,399</u>	<u>53,129</u>	<u>1,650,111</u>
Receivables from derivative financial instruments held for trading	1,370,126	972,622	585,361	136,689	-	3,064,798
Liabilities from derivative financial instruments held for trading	<u>(1,665,817)</u>	<u>(796,322)</u>	<u>(513,955)</u>	<u>(150,520)</u>	-	<u>(3,126,614)</u>
Net position of financial instruments held for trading	<u>(295,691)</u>	<u>176,300</u>	<u>71,406</u>	<u>(13,831)</u>	<u>-</u>	<u>(61,816)</u>
Receivables from derivative financial instruments designated as hedge accounting	4,302	62,093	158,991	66,120	-	291,506
Liabilities from derivative financial instruments designated as hedge accounting	<u>(402)</u>	<u>(307,404)</u>	<u>(468,105)</u>	<u>(20,241)</u>	-	<u>(796,152)</u>
Net position of financial instruments designated as hedge accounting	<u>3,900</u>	<u>(245,311)</u>	<u>(309,114)</u>	<u>45,879</u>	<u>-</u>	<u>(504,646)</u>
Net position of derivative financial instruments total	<u>(291,791)</u>	<u>(69,011)</u>	<u>(237,708)</u>	<u>32,048</u>	<u>=</u>	<u>(566,462)</u>
Commitments to extend credit	730,236	754,814	205,020	40,620	340	1,731,030
Bank guarantees	<u>120,691</u>	<u>177,311</u>	<u>134,118</u>	<u>98,445</u>	<u>1,794</u>	<u>532,359</u>
Off-balance sheet commitments	<u>850,927</u>	<u>932,125</u>	<u>339,138</u>	<u>139,065</u>	<u>2,134</u>	<u>2,263,389</u>

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.3. Net foreign currency position and foreign currency risk

As at 31 December 2018

	USD	EUR	CHF	Others	Total
Assets	519,763	3,340,594	71,914	3,960,318	7,892,589
Liabilities	(567,176)	(2,855,678)	(53,833)	(3,020,425)	(6,497,112)
Derivative financial instruments	<u>62,014</u>	<u>(355,835)</u>	<u>(20,117)</u>	<u>(27,253)</u>	<u>(341,191)</u>
Net position	<u>14,601</u>	<u>129,081</u>	<u>(2,036)</u>	<u>912,640</u>	<u>1,054,286</u>

As at 31 December 2017

	USD	EUR	CHF	Others	Total
Assets	499,300	3,007,825	94,450	3,313,756	6,915,331
Liabilities	(563,412)	(2,674,250)	(45,639)	(2,720,237)	(6,003,538)
Derivative financial instruments	<u>68,952</u>	<u>(118,613)</u>	<u>(22,871)</u>	<u>(14,356)</u>	<u>(86,888)</u>
Net position	<u>4,840</u>	<u>214,962</u>	<u>25,940</u>	<u>579,163</u>	<u>824,905</u>

The table above provides an analysis of the main foreign currency exposures of the Group. The remaining foreign currencies are shown within 'Others'. 'Others' category contains mainly foreign currencies in RON, RSD, HRK, UAH, RUB and BGN. The Group monitors its foreign exchange position for compliance with the regulatory requirements of the National Banks and its own limit system established in respect of limits on open positions. The measurement of the open foreign currency position of the Group involves monitoring the "VaR" limit on the foreign exchange exposure of the Group.

28.4. Interest rate risk management

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, therefore, indicates to what extent it is exposed to interest rate risk.

The majority of the interest bearing assets and liabilities of the Group are structured to match either short-term assets and short-term liabilities, or long-term assets and liabilities with repricing opportunities within one year, or long-term assets and corresponding liabilities where repricing is performed simultaneously.

In addition, the significant spread existing between the different types of interest bearing assets and liabilities enables the Group to benefit from a high level of flexibility in adjusting for its interest rate matching and interest rate risk exposure.

The following table presents the interest repricing dates of the Group. Variable yield assets and liabilities have been reported in accordance with their next repricing date. Fixed income assets and liabilities have been reported in accordance with their maturity.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.4. Interest rate risk management [continued]

As at 31 December 2018

ASSETS	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years	
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency
Cash, amounts due from banks and balances with the National Banks	29,189	344,793	4	88	-	18	-	-	-	-
fixed rate	27,852	342,282	-	88	-	17	-	-	-	-
variable rate	1,337	2,511	4	-	-	1	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Placements with other banks, net of allowance for placements losses	104,946	139,379	8,870	56,902	29,379	30,111	861	-	-	826
fixed rate	5,536	98,584	8,870	50,537	58	28,518	861	-	-	826
variable rate	99,410	40,795	-	6,365	29,321	1,593	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	1,073	4,328	1,510	441	6,086	6,044	-	1,459	-	18,496
fixed rate	2	2,583	67	441	5,095	6,044	-	1,459	-	18,496
variable rate	1,071	1,745	1,443	-	991	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Securities at fair value through other comprehensive income	68,525	42,076	142,135	81,260	408,288	52,665	119,081	64,060	349,897	523,535
fixed rate	48,869	42,076	60,922	81,260	351,691	52,665	119,081	59,750	348,910	523,535
variable rate	19,656	-	81,213	-	56,597	-	-	4,310	987	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Loans at amortized cost and at fair value	441,995	2,749,040	880,215	659,955	131,993	623,734	280,605	205,738	1,137,939	819,655
fixed rate	14,422	720,941	1,933	108,312	22,887	324,938	219,491	168,363	709,526	399,139
variable rate	427,573	2,028,099	878,282	551,643	109,106	298,796	61,114	37,375	428,413	420,516
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Securities at amortized cost	-	37,214	5,062	571	122,161	8,780	107,518	16,740	1,383,536	56,328
fixed rate	-	37,214	5,062	571	122,161	8,780	107,518	16,740	1,383,536	56,328
variable rate	-	-	-	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Derivative financial instruments	842,714	477,367	907,278	442,794	645,969	447,455	19,192	264,128	23,172	84,528
fixed rate	814,440	475,377	756,860	408,892	643,141	409,431	19,192	264,128	23,172	84,528
variable rate	28,274	1,990	150,418	33,902	2,828	38,024	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-	-	-	-	-
fixed rate	-	-	-	-	-	-	-	-	-	-
variable rate	-	-	-	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.4. Interest rate risk management [continued]

As at 31 December 2018 [continued]

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years	
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency
LIABILITIES										
Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks	64,270	149,357	1,259	9,753	1,159	6,727	2,463	6,463	128,135	6,436
fixed rate	8,655	111,126	1,254	6,929	1,152	3,907	2,463	6,463	128,135	6,436
variable rate	55,615	38,231	5	2,824	7	2,820	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Deposits from customers	767,504	4,038,620	190,038	449,593	97,267	595,259	39,958	50,021	4,041,988	747,734
fixed rate	437,707	1,508,239	190,026	446,960	97,266	595,017	39,958	50,017	4,041,988	747,709
variable rate	329,797	2,530,381	12	2,633	1	242	-	4	-	25
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Liabilities from issued securities	23,608	1,065	133,223	1,903	4,211	2,098	5,611	42	242,710	47
fixed rate	-	227	39,265	-	2,156	4	5,611	42	242,710	47
variable rate	23,608	838	93,958	1,903	2,055	2,094	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Derivative financial instruments	1,095,148	227,313	963,041	363,943	615,257	464,843	273,251	14,581	39,995	60,652
fixed rate	1,068,144	216,646	823,357	341,469	612,805	441,177	273,251	14,581	39,995	60,652
variable rate	27,004	10,667	139,684	22,474	2,452	23,666	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Subordinated bonds and loans	-	-	-	76,498	-	-	-	-	-	4,903
fixed rate	-	-	-	-	-	-	-	-	-	4,903
variable rate	-	-	-	76,498	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-	-	-	-	-
fixed rate	-	-	-	-	-	-	-	-	-	-
variable rate	-	-	-	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Net position	(462,088)	(622,158)	657,513	340,321	625,982	99,880	205,974	481,018	(1,558,284)	683,596

OTP BANK PLC.
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NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.4. Interest rate risk management [continued]

As at 31 December 2017

ASSETS	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years	
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency
Cash, amounts due from banks and balances with the National Banks	205,408	435,363	2,977	290	-	22	-	-	-	-
fixed rate	203,141	363,723	2,972	290	-	22	-	-	-	-
variable rate	2,267	71,640	5	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Placements with other banks, net of allowance for placements losses	70,716	263,359	15,698	21,517	3,197	23,258	14,214	-	202	3,896
fixed rate	14,098	197,489	1,063	10,969	3,197	13,983	14,214	-	202	3,188
variable rate	56,618	65,870	14,635	10,548	-	9,275	-	-	-	708
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	12,126	14,056	33,662	6,342	66,770	21,042	43,938	18,339	1,480	25,890
fixed rate	11,656	13,862	33,038	6,342	50,432	21,042	43,938	18,339	1,480	25,890
variable rate	470	194	624	-	16,338	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Securities at fair value through other comprehensive income	81,348	55,439	70,013	58,292	384,454	95,966	279,134	122,569	528,552	468,019
fixed rate	59,495	49,309	50,493	28,285	360,619	95,966	269,149	122,569	528,552	468,019
variable rate	21,853	6,130	19,520	30,007	23,835	-	9,985	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Loans at amortized cost and at fair value	877,092	2,323,586	665,244	725,290	224,567	683,897	122,063	248,308	505,101	500,411
fixed rate	40,871	306,371	24,701	110,151	56,856	322,608	58,585	230,020	210,269	443,789
variable rate	836,221	2,017,215	640,543	615,139	167,711	361,289	63,478	18,288	294,832	56,622
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Securities at amortized cost	-	41,241	-	2,824	69,084	4,995	111,596	8,600	1,002,642	49,751
fixed rate	-	40,895	-	2,824	69,084	4,987	111,596	8,600	1,002,642	49,751
variable rate	-	346	-	-	-	8	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Derivative financial instruments	756,421	339,855	702,752	418,190	484,697	311,040	71,257	31,422	22,061	33,834
fixed rate	735,532	335,957	525,555	415,869	463,910	298,831	70,794	31,422	22,061	33,834
variable rate	20,889	3,898	177,197	2,321	20,787	12,209	463	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-	-	-	-	-
fixed rate	-	-	-	-	-	-	-	-	-	-
variable rate	-	-	-	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-

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

28.4. Interest rate risk management [continued]

As at 31 December 2017 [continued]

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years	
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency
LIABILITIES										
Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks	40,026	116,024	8,927	19,477	34,745	22,624	17,858	11,954	165,864	32,771
fixed rate	22,904	82,573	8,583	2,085	25,817	17,182	17,843	11,954	165,115	32,768
variable rate	17,122	33,451	344	17,392	8,928	5,442	15	-	749	3
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Deposits from customers	1,337,594	3,597,101	142,659	386,023	98,017	722,046	59,361	80,024	2,894,525	681,756
fixed rate	500,409	2,061,046	133,246	383,738	98,017	722,046	59,361	80,024	132,197	127,130
variable rate	837,185	1,536,055	9,413	2,285	-	-	-	-	2,762,328	554,626
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Liabilities from issued securities	53,686	1,358	2,309	2,462	7,621	3,265	39,818	251	134,286	57
fixed rate	429	58	2,309	22	7,621	357	39,818	251	134,286	57
variable rate	53,257	1,300	-	2,440	-	2,908	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Derivative financial instruments	875,512	207,974	909,079	147,684	397,702	309,225	43,494	9,167	35,935	38,342
fixed rate	853,960	204,051	770,912	123,845	394,530	303,888	43,428	9,167	35,935	38,342
variable rate	21,552	3,923	138,167	23,839	3,172	5,337	66	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Subordinated bonds and loans	-	-	-	76,020	-	-	-	-	-	1
fixed rate	-	-	-	76,020	-	-	-	-	-	-
variable rate	-	-	-	-	-	-	-	-	-	1
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-	-	-	-	-
fixed rate	-	-	-	-	-	-	-	-	-	-
variable rate	-	-	-	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Net position	(303,707)	(449,558)	427,372	601,079	694,684	83,060	481,671	327,842	(1,170,572)	328,874

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

28.5. Market risk

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

28.5.1. Market Risk sensitivity analysis

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

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

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

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

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

Historical VaR (99%, one-day) by risk type	Average	
	2018	2017
Foreign exchange	504	300
Interest rate	212	191
Equity instruments	33	10
Diversification	=	=
Total VaR exposure	<u>749</u>	501

The table above shows the VaR figures by asset classes. Since processes driving the value of the major asset classes are not independent (for example the depreciation of HUF against the EUR mostly coincide with the increase of the yields of Hungarian Government Bonds), a diversification impact emerges, so the overall VaR is less than the sum of the VaR of each individual asset class.

While VaR captures the Group's daily exposure to currency and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in interest or foreign currency rates over a year. The longer time frame of sensitivity analysis complements VaR and helps the Group to assess its market risk exposures. Details of sensitivity analysis for foreign currency risk are set out in Note 28.5.2., for interest rate risk in Note 28.5.3., and for equity price sensitivity analysis in Note 28.5.4.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.5. Market risk [continued]

28.5.2. Foreign currency sensitivity analysis

The following table details the Group's sensitivity to an increase and decrease in the HUF exchange rate against the EUR and USD, over a 3 months period. Monte Carlo simulation is used when reporting foreign currency risk internally to key management personnel and represents Management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items as strategic open positions related to foreign activities.

The strategic open position related to the foreign operations was short and amounted to EUR 310 million (kept to hedge the currency risk of the expected FX-denominated net earnings of the main foreign subsidiaries) as at 31 December 2018. High portion of strategic positions is considered as effective hedge of the net investment in foreign subsidiaries – net investment hedge is applied at a Group level -, and so FX risk affects the Group's Comprehensive Income and not its earnings.

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

Probability	Effects to the Consolidated Statement of Profit or Loss	
	in 3 months period	
	2018	2017
	In HUF billion	In HUF billion
1%	(12.2)	(11.9)
5%	(8.3)	(8.1)
25%	(3.5)	(3.3)
50%	(0.4)	(0.3)
25%	2.6	2.6
5%	6.7	6.7
1%	9.6	9.4

Notes:

- (1) The short term loss on the strategic open position is compensated by the long-term exchange rate gain on the foreign operations.
- (2) Monte Carlo simulation is based on the empirical distribution of the historical exchange rate movements between 2002 and 2018.

The effect on equity of the foreign currency sensitivity analysis is not significant either for the year ended 31 December 2018 or 2017.

28.5.3. Interest rate sensitivity analysis

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

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.5 Market risk [continued]

28.5.3. Interest rate sensitivity analysis [continued]

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

- (1) HUF base rate stays unchanged and BUBOR decreases gradually to 0.0% (probable scenario)
- (2) HUF base rate stays unchanged and BUBOR decreases gradually by 50 bps over the next year (alternative scenario)

The net interest income in a one year period after 1 January 2019 would be decreased by HUF 1,309 million (probable scenario) and HUF 3,424 million (alternative scenario) as a result of these simulation. The same simulation indicated HUF 191 million (probable scenario) and HUF 5,028 million (alternative scenario) decrease in the Net interest income in a one year period after 31 December 2017.

This effect is counterbalanced by capital gains HUF 268 million (or probable scenario), HUF 3,331 million (for alternative scenario) as at 31 December 2018 and (HUF 306 million for probable scenario, HUF 3,735 million for alternative scenario) as at 31 December 2017 on the government bond portfolio held for hedging (economic).

Furthermore, the effects of an instant 10bps parallel shift of the HUF, EUR and USD yield-curves on net interest income over a one-year period and on the market value of the hedge government bond portfolio booked against capital was analysed. The results can be summarized as follows (in HUF million):

Description	2018		2017	
	Effects to the net interest income (one-year period)	Effects to capital (Price change of government bonds at fair value through other comprehensive income)	Effects to the net interest income (one-year period)	Effects to capital (Price change of government bonds at fair value through other comprehensive income)
HUF (0.1%) parallel shift	(1,815)	671	(1,658)	771
EUR (0.1%) parallel shift	(373)	-	(539)	-
USD (0.1%) parallel shift	(172)	-	(168)	-
Total	(2,360)	671	(2,365)	771

28.5.4. Equity price sensitivity analysis

The following table shows the effect of the equity price sensitivity. The Group uses VaR calculation with 1 day holding period and a 99% confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. The daily loss will not exceed the reported VaR number with 99% of probability.

The stress test assumes the largest price movement of the last year and calculates with it as the adverse direction. These scenarios show the loss of the portfolio when all prices change with the maximum amount of the last year.

Description	2018	2017
VaR (99%, one day, HUF million)	33	10
Stress test (HUF million)	(43)	(123)

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

28.6. Capital management

Capital management

The primary objective of the capital management of the Group is to ensure the prudent operation, the entire compliance with the prescriptions of the regulator for a persistent business operation and maximising the shareholder value, accompanied by an optimal financing structure.

The capital management of the Group members includes the management and evaluation of the shareholders' equity available for hedging risks, other types of funds to be recorded in the equity and all material risks to be covered by the capital.

The basis of the capital management of the Group members in the short run is the continuous monitoring of their capital position, in the long run the strategic and the business planning, which includes the monitoring and forecast of the capital position.

The Group members maintain the capital adequacy required by the regulatory bodies and the planned risk taking mainly by means of ensuring and developing their profitability. In case the planned risk level of a Group member exceeded its Core and the previously raised Supplementary capital, it ensures the prudent operation by occasional measures. A further tool in the capital management of the Bank is the dividend policy, and the transactions performed with the treasury shares.

Capital adequacy

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

The capital adequacy of the Group is supervised based on the financial statements data prepared in accordance with IFRS applying the current directives, rulings and indicators from 1 January 2014.

The Group has entirely complied with the regulatory capital requirements in year 2018 as well as in year 2017.

The Group uses the standard method for determining the regulatory capital requirements of the credit risk and market risk, and parallel to that, the base indicator method and the advanced method (AMA) in case of the operational risk.

For international comparison purposes, the Group calculated the Regulatory capital based on IFRS data as adopted by the EU, and the consolidated Capital adequacy ratio based on this in accordance with the regulations of Basel III. The Capital adequacy ratio of the Group (IFRS) was 15.3%, the Regulatory capital was HUF 1,449,629 million and the Total regulatory capital requirement was HUF 757,157 million as at 31 December 2018. The same ratios calculated as at 31 December 2017 were the following: 14.6%, HUF 1,228,628 million and HUF 671,194 million.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.6. Capital management [continued]

Capital adequacy [continued]

Calculation on IFRS basis	2018	2017
<i>Core capital (Tier 1) =</i>		
<i>Common Equity Tier 1 (CET 1)</i>	1,282,906	1,062,701
Issued capital	28,000	28,000
Reserves	1,548,469	1,383,726
Fair value corrections	23,374	59,936
Other capital components	(115,807)	(142,860)
Non-controlling interests	1,313	940
Treasury shares	(67,999)	(63,289)
Goodwill and other intangible assets	(168,911)	(178,640)
Other adjustments	34,467	(25,112)
Additional Tier 1 (AT1)	-	-
<i>Supplementary capital (Tier 2)</i>	166,723	165,927
Subordinated bonds and loans	76,496	75,695
Other issued capital components	89,935	89,935
Components recognized in T2 capital issued by subsidiaries	292	297
Regulatory capital¹	<u>1,449,629</u>	<u>1,228,628</u>
Credit risk capital requirement	635,328	543,645
Market risk capital requirement	32,379	41,000
Operational risk capital requirement	<u>89,450</u>	<u>86,549</u>
Total requirement regulatory capital	<u>757,157</u>	<u>671,194</u>
Surplus capital	<u>768,742</u>	<u>557,434</u>
CET 1 ratio	13.6%	12.7%
Tier 1 ratio	13.6%	12.7%
Capital adequacy ratio	<u>15.3%</u>	<u>14.6%</u>

Basel III

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

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

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 29: RECLASSIFICATION OF FINANCIAL INSTRUMENTS (in HUF mn)

Reclassification from securities held-for-trading to securities at fair value through other comprehensive income:

Date of reclassification	Reason for reclassification	Type of securities	Nominal value at reclassification	Fair value at the date of reclassification	EIR at the date of reclassification	Interest income
1 September 2018	Change in business model	Retail Hungarian government bonds	66,506	66,484	2%-6,4%	643

During the year 2018, securities issued by the Hungarian Government with the nominal value of HUF 66,506 million were transferred from the trading portfolio to the securities at fair value through other comprehensive income. The Group has previously held retail government bonds in the portfolio at fair value through other comprehensive income. During 2018 the Group changed the business model of the retail government bonds to manage all on the basis of a single business model aimed at collecting the future contractual cash flows and/or selling them.

In 2018, the terms and conditions of sale of retail government bonds and the pricing environment have changed significantly, as a result of which the Group is no longer able to maintain its sole trading intent with these securities that the Group applied earlier. Due to the decrease in transaction volume and the changes in conditions, the Group has chosen to keep the securities and realises its cash-flows however also realising potential gains by making favourable buy-sell transaction on the market

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

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

Contingent liabilities

	2018	2017
Commitments to extend credit	2,187,619	1,731,030
Guarantees arising from banking activities	600,278	532,359
Contingent liabilities and commitments total in accordance with IFRS 9	<u>2,787,897</u>	<u>2,263,389</u>
Legal disputes (disputed value)	30,644	15,775
Confirmed letters of credit	9,798	14,541
Other	<u>255,271</u>	<u>326,745</u>
Contingent liabilities and commitments total in accordance with IAS 37	<u>295,713</u>	<u>357,061</u>
Total	<u>3,083,610</u>	<u>2,620,450</u>

Legal disputes

At the balance sheet date the Group was involved in various claims and legal proceedings of a nature considered normal to its business. The level of these claims and legal proceedings corresponds to the level of claims and legal proceedings in previous years.

The Group believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash-flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation. Provisions due to legal disputes were HUF 25,930 million and HUF 24,958 million as at 30 December 2018 and 2017, respectively. (See Note 18.)

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 30: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS
(in HUF mn) [continued]

Commitments to extend credit, guarantees and letters of credit

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

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

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

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

Guarantees, payment undertakings arising from banking activities

Payment undertaking is a promise by the Group to assume responsibility for the debt obligation of a borrower if that borrower defaults until a determined amount, until a determined date, in case of fulfilling conditions, without checking the underlying transactions. The guarantee's liability is joint and primary with the principal, in case of payment undertaking, while the Group assumes the obligation derived from guarantee independently by the conditions established by the Group.

A guarantee is most typically required when the ability of the primary obligor or principal to perform its obligations under a contract is in question, or when there is some public or private interest which requires protection from the consequences of the principal's default or delinquency. A contract of guarantee is subject to the statute of frauds (or its equivalent local laws) and is only enforceable if recorded in writing and signed by the surety and the principal.

If the surety is required to pay or perform due to the principal's failure to do so, the law will usually give the surety a right of subrogation, allowing the surety to use the surety's contractual rights to recover the cost of making payment or performing on the principal's behalf, even in the absence of an express agreement to that effect between the surety and the principal.

Derivatives

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 31: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn)

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

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

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

During implementation of the Remuneration Policy of the Group appeared that in case of certain foreign subsidiaries it is not possible to ensure the originally determined share-based payment because of legal reasons – incompatible with relevant EU-directives –, therefore a decision was made to cancel the share-based payment in affected countries, and virtual share based payment – cash payment fixed to share price - was made from 2017.

The quantity of usable shares for individuals calculated for settlement of share-based payment shall be determined as the ratio of the amount of share-based payment and share price determined by Supervisory Board¹

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

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

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

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

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

¹ Until the end of 2014 Board of Directors

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

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

Share purchasing at a discounted price

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

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

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

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

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

	Approved pieces of shares	Exercised until 31 December 2018	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable as at 31 December 2018
Share purchasing period started in 2014	406,044	404,263	4,369	1,781	-
Share purchasing period started in 2015	804,469	804,469	4,918	-	-
Share purchasing period started in 2016	393,750	393,750	6,775	-	-
Share purchasing period started in 2017	483,987	483,987	9,405	-	-

Based on parameters accepted by Board of Directors relating to the year **2014** effective pieces are follows as at 31 December 2018:

	Approved pieces of shares	Exercised until 31 December 2018	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable as at 31 December 2018
Share purchasing period started in 2015	176,459	176,459	5,828	-	-
Share purchasing period started in 2016	360,425	359,524	7,011	901	-
Share purchasing period started in 2017	189,778	189,778	9,362	-	-
Share purchasing period started in 2018	223,037	200,433	10,097	-	22,604

Based on parameters accepted by Supervisory Board relating to the year **2015** effective pieces are follows as at 31 December 2018:

	Approved pieces of shares	Exercised until 31 December 2018	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable as at 31 December 2018
Share purchasing period started in 2016	152,247	152,247	7,373	-	-
Remuneration exchanged to share provided in 2016	10,947	10,947	6,509	-	-
Share purchasing period started in 2017	299,758	299,758	9,403	-	-
Remuneration exchanged to share provided in 2017	20,176	20,176	9,257	-	-
Share purchasing period started in 2018	166,047	151,489	10,009	-	14,558
Remuneration exchanged to share provided in 2018	9,229	9,229	10,098	-	-
Share purchasing period starting in 2019	-	-	-	-	204,585
Remuneration exchanged to share applying in 2019	-	-	-	-	10,671

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

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

	Approved pieces of shares	Exercised until 31 December 2018	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable as at 31 December 2018
Share purchasing period started in 2017	147,984	147,984	9,544	-	-
Remuneration exchanged to share provided in 2017	4,288	4,288	9,194	-	-
Share purchasing period started in 2018	321,528	314,769	10,283	-	6,759
Remuneration exchanged to share provided in 2018	8,241	8,241	10,098	-	-
Share purchasing period starting in 2019	-	-	-	-	163,390
Remuneration exchanged to share applying in 2019	-	-	-	-	4,148
Share purchasing period starting in 2020	-	-	-	-	172,356
Remuneration exchanged to share applying in 2020	-	-	-	-	4,567

Based on parameters accepted by Supervisory Board relating to the year **2017** effective pieces are follows as at 31 December 2018:

	Approved pieces of shares	Exercised until 31 December 2018	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable as at 31 December 2018
Share purchasing period started in 2018	108,243	108,243	11,005	-	-
Remuneration exchanged to share provided in 2018	11,926	11,926	10,098	-	-
Share purchasing period starting in 2019	-	-	-	-	212,263
Remuneration exchanged to share applying in 2019	-	-	-	-	26,293
Share purchasing period starting in 2020	-	-	-	-	101,577
Remuneration exchanged to share applying in 2020	-	-	-	-	12,838
Share purchasing period starting in 2021	-	-	-	-	120,981
Remuneration exchanged to share applying in 2021	-	-	-	-	12,838
Share purchasing period starting in 2022	-	-	-	-	42,820
Remuneration exchanged to share applying in 2022	-	-	-	-	3,003

Effective pieces relating to the periods starting in 2019-2022 settled during valuation of performance of year 2015-2017, can be modified based on risk assessment and personal changes.

In connection with shares given as a part of payments detailed in the *Direction of Chief Executive about the Remuneration of Work in OTP Bank* and the share-based compensation for Board of Directors and connecting compensation based on performance assessment accounted as equity-settled share based transactions, HUF 3,797 million and HUF 3,597 million was recognized as expense for the year ended 31 December 2018 and 2017 respectively.

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NOTE 32: RELATED PARTY TRANSACTIONS (in HUF mn)

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

Compensations	2018	2017
Short-term employee benefits	7,817	8,323
Share-based payment	2,431	2,520
Other long-term employee benefits	390	384
Termination benefits	36	29
Post-employment benefits	<u>26</u>	<u>12</u>
Total	<u>10,700</u>	<u>11,268</u>

	2018	2017
Loans provided to companies owned by the Management (normal course of business)	62,971	56,508
Commitments to extend credit and guarantees	37,809	38,652
Credit lines of the members of Board of Directors and the Supervisory Board and their close family members and Treasury credit lines of the members of Board of Directors and their close family members (at normal market conditions)	3,692	3,743

Types of transactions	2018		2017	
	Non-consolidated subsidiaries	Associated companies	Non-consolidated subsidiaries	Associated companies
Loans provided	5,136	22	4,484	1,334
Client deposits	4,753	628	5,191	321
Net interest income on loan provided	144	-	132	111
Net fee incomes	39	-	44	-

An analysis of **credit line "A"** is as follows:

	2018	2017
Members of Board of Directors and their close family members	130.7	37
Executives	117	163.8
Members of Supervisory Board and their close family members	<u>4.4</u>	<u>0.7</u>
Total	<u>252.1</u>	<u>201.5</u>

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

	2018	2017
Members of Board of Directors and their close family members	29	29
Executives	<u>5</u>	<u>5</u>
Total	<u>34</u>	<u>34</u>

An analysis of credit limit related to **MasterCard Bonus** is as follows:

	2018	2017
Executives	<u>2</u>	-
Total	<u>2</u>	<u>-</u>

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

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

	2018	2017
Members of Board of Directors and their close family members	31.5	31
Members of Supervisory Board and their close family members	<u>0.3</u>	<u>0.3</u>
Total	<u>31.8</u>	<u>31.3</u>

An analysis of credit limit related to **AMEX Blue credit card loan** is as follows:

	2018	2017
Members of Board of Directors and their close family members	2.2	0.6

An analysis of credit limit related to **AMEX Gold credit card loan** is as follows:

	2018	2017
Members of Board of Directors and their close family members	4.2	2.8
Executives	<u>35</u>	<u>12</u>
Total	<u>39.2</u>	<u>14.8</u>

An analysis of credit limit related to **AMEX Platinum credit card loan** is as follows:

	2018	2017
Members of Board of Directors and their close family members	17	17
Executives and their close family members	<u>79</u>	<u>39.8</u>
Total	<u>96</u>	<u>56.8</u>

The Members of Board of Directors and their close family members owned credit limit related to other – above not listed - credit card in the amount of HUF 23.8 million and HUF 19 million as at 31 December 2018 and 2017 respectively.

An analysis of **Lombard loans** and **Personal loans** at the Bank is as follows:

	2018	2017
Members of Board of Directors and their close family members	29,084	29,084
Executives and their close family members	<u>230</u>	<u>230</u>
Total Lombard loans	<u>29,314</u>	<u>29,314</u>
Executives	<u>12</u>	<u>5</u>
Total Personal loans	<u>12</u>	<u>5</u>
Executives	<u>2</u>	=
Total loans distributed by OTP in its capacity of employee	<u>2</u>	=

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

	2018	2017
Members of Board of Directors	2,262	2,121
Members of Supervisory Board	<u>202</u>	<u>204</u>
Total	<u>2,464</u>	<u>2,325</u>

In the normal course of business, the Bank enters into other transactions with its unconsolidated subsidiaries of the Group, the amounts and volumes of which are not significant to these consolidated financial statements taken as a whole. Related party transactions were made on terms equivalent to those that prevail in arm's length transactions and such terms can be substantiated.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 33: ACQUISITION (in HUF mn)

a) Purchase and consolidation of subsidiaries

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

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

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

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

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

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

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

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

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

The control is established when the Group has the right and exposure over the variable positive yield of the investee but the same time put up with the consequences of the negative returns and the Group by its decisions is able to influence the extent of the yields.

The Group primarily considering the following factors in the process of determining the existing of the control:

- investigation of the decision making mechanism of the entity,
- authority of the Board of Directors, Supervisory Board and General meeting based on the deed of association,
- existence of investments with preferential voting rights.

If the control can't be obviously determined then it should be supposed that the control does not exist.

Significant influence is presumed by the Group to exist – unless the contrary case is proven – when the Group holds 20% or more of the voting power of an investee but does not have a control.

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

Significant subsidiaries

<u>Name</u>	<u>Ownership (Direct and Indirect)</u>		<u>Activity</u>
	2018	2017	
DSK Bank EAD (Bulgaria)	100.00%	100.00%	commercial banking services
OTP Bank JSC (Ukraine)	100.00%	100.00%	commercial banking services
JSC "OTP Bank" (Russia)	97.90%	97.90%	commercial banking services
OTP banka Hrvatska d.d. (Croatia)	100.00%	100.00%	commercial banking services
OTP Bank Romania S.A. (Romania)	100.00%	100.00%	commercial banking services
OTP banka Srbija a.d. (Serbia)	100.00%	98.90%	commercial banking services
Vojvodjanska banka a.d. Novi Sad (Serbia)	100.00%	100.00%	commercial banking services
OTP Banka Slovensko a. s. (Slovakia)	99.38%	99.38%	commercial banking services
OTP Financing Malta Company Ltd. (Malta)	100.00%	100.00%	refinancing activities
OTP Factoring Ltd.	100.00%	100.00%	work-out
OTP Mortgage Bank Ltd.	100.00%	100.00%	mortgage lending
OTP Real Estate Ltd.	100.00%	100.00%	real estate management and development
Merkantil Bank Ltd.	100.00%	100.00%	finance lease
OTP Building Society Ltd.	100.00%	100.00%	housing savings and loan
OTP Fund Management Ltd.	100.00%	100.00%	fund management
R.E. Four d.o.o. (Serbia)	100.00%	100.00%	real estate management
Crnogorska komercijalna banka a.d. (Montenegro)	100.00%	100.00%	commercial banking services
OTP Financing Netherlands B.V. (the Netherlands)	100.00%	100.00%	refinancing activities

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

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

Significant subsidiaries [continued]

<u>Name</u>	<u>Ownership (Direct and Indirect)</u>		<u>Activity</u>
	2018	2017	
OTP Holding Ltd. (Cyprus)	100.00%	100.00%	refinancing activities
OTP Financing Cyprus Ltd. (Cyprus)	100.00%	100.00%	refinancing activities
Bank Center No. 1. Ltd.	100.00%	100.00%	real estate lease
Inga Kettő Ltd.	100.00%	100.00%	property management
OTP Funds Servicing and Consulting Ltd.	100.00%	100.00%	fund services
OTP Real Estate Leasing Ltd. (previously OTP Flat Lease Ltd.)	100.00%	100.00%	real estate leasing
OTP Life Annuity Ltd.	100.00%	100.00%	life annuity services

Significant associates and joint ventures¹

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

As at 31 December 2018

	<i>Szallas.hu Ltd.</i>	<i>D-ÉG Thermoset Ltd.</i>	<i>Company for Cash Services Ltd.</i>	<i>Total</i>
Total assets	2,135	3,883	2,377	8,395
Total liabilities	813	4,629	112	5,554
Shareholders' equity	1,322	(746)	2,265	2,841
Total revenues	4,172	2,386	1,136	7,694
Ownership	30%	0.10%	20%	

As at 31 December 2017

	<i>Szallas.hu Ltd.</i>	<i>D-ÉG Thermoset Ltd.</i>	<i>Company for Cash Services Ltd.</i>	<i>Total</i>
Total assets	1,667	3,883	2,289	7,839
Total liabilities	722	4,629	-	5,351
Shareholders' equity	945	(746)	2,289	2,488
Total revenues	3,459	2,386	127	5,972
Ownership	30%	0.10%	20%	

NOTE 35: TRUST ACTIVITIES (in HUF mn)

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

	2018	2017
The amount of loans managed by the Group as a trustee	38,647	39,413

¹ Based on unaudited financial statements.

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

NOTE 36: CONCENTRATION OF ASSETS AND LIABILITIES

	2018	2017
In the percentage of the total assets		
Receivables from, or securities issued by the Hungarian Government or the NBH	18.98%	21.69%

There were no other significant concentrations of the assets or liabilities of the Group as at 31 December 2018 or 2017.

The Group continuously provides the Authority with reports on the extent of dependency on large depositors as well as the exposure of the biggest 50 depositors towards the Group.

Further to this obligatory reporting to the Authority, the Group pays particular attention on the exposure of its largest partners and cares for maintaining a closer relationship with these partners in order to secure the stability of the level of deposits.

The organisational unit of the Group in charge of partner-risk management analyses the biggest partners on a constant basis and sets limits on the Bank's and the Group's exposure separately partner-by-partner. If necessary, it modifies partner-limits in due course thereby reducing the room for manoeuvring of the Treasury and other business areas

NOTE 37: CONSOLIDATED EARNINGS PER SHARE (in HUF mn)

Consolidated Earnings per share attributable to the ordinary shares of the Group are determined by dividing consolidated Net profit for the period attributable to ordinary shareholders, after the deduction of declared preference dividends, by the weighted average number of ordinary shares outstanding during the year. Dilutive potential ordinary shares are deemed to have been converted into ordinary shares.

	2018	2017
Consolidated net profit for the period attributable to ordinary shareholders (in HUF mn)	318,233	281,142
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	261,816,188	261,743,165
Basic Earnings per share (in HUF)	<u>1,215</u>	<u>1,074</u>
Consolidated net profit for the period attributable to ordinary shareholders (in HUF mn)	318,233	281,142
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	261,939,080	261,851,512
Diluted Earnings per share (in HUF)	<u>1,215</u>	<u>1,074</u>
	2018	2017
	Number of shares	
Weighted average number of ordinary shares	280,000,010	280,000,010
Average number of Treasury shares	18,183,822	18,256,845
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS	<u>261,816,188</u>	<u>261,743,165</u>
Dilutive effects of options issued in accordance with the remuneration policy and convertible into ordinary shares ¹	122,892	108,347
The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS	<u>261,939,080</u>	<u>261,851,512</u>

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

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

NOTE 38: NET GAIN OR LOSS REALIZED ON FINANCIAL INSTRUMENTS (in HUF mn)

As at 31 December 2018

	Net interest gain and loss	Net non- interest gain and loss	Loss allowances	Other Comprehensive Income
Cash, amounts due from banks and balances with the National Banks	421	-	-	-
Placements with other banks, net of loss allowance for placements	7,248	-	(144)	-
Securities at fair value through profit or loss	-	598	-	-
Securities at fair value through other comprehensive income	37,912	301	820	(22,333)
Loans at amortized cost and at fair value	554,093	19,300	(39,143)	-
Securities at amortized cost	59,899	-	(212)	-
Other assets	3,964	-	-	-
Derivative financial instruments	25,634	9,409	-	-
Amounts due to banks , the Hungarian Government, deposits from the National Banks and other banks	(8,804)	-	-	-
Deposits from customers	(47,132)	197,547	-	-
Liabilities from issued securities	(6,343)	-	-	-
Subordinated bonds and loans	(2,169)	-	-	-
Total	<u>624,723</u>	<u>227,155</u>	<u>(38,679)</u>	<u>(22,333)</u>

As at 31 December 2017

	Net interest gain and loss	Net non- interest gain and loss	Loss allowances	Other Comprehensive Income
Cash, amounts due from banks and balances with the National Banks	1,444	-	-	-
Placements with other banks, net of loss allowance for placements	4,178	-	(228)	-
Securities at fair value through profit or loss	-	3,829	-	-
Securities at fair value through other comprehensive income	34,442	4,101	7	17,227
Loans at amortized cost and at fair value	513,919	19,218	(40,620)	-
Securities at amortized cost	56,343	-	3	-
Other assets	3,219	-	-	-
Derivative financial instruments	4,079	5,617	-	-
Amounts due to banks , the Hungarian Government, deposits from the National Banks and other banks	(9,308)	-	-	-
Deposits from customers	(46,574)	178,168	-	-
Liabilities from issued securities	(5,727)	-	-	-
Subordinated bonds and loans	(2,259)	-	-	-
Total	<u>553,756</u>	<u>210,933</u>	<u>(40,838)</u>	<u>17,227</u>

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

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

In determining the fair value of a financial asset or liability the Group in the case of instruments that are quoted on an active market uses the market price. In most cases market price is not publicly available so the Group has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 39. d) for more information about fair value classes applied for financial assets and liabilities measured at fair value in these financial statements.

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

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

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

Classes of assets and liabilities not measured at fair value in the statement of financial position, the income approach was used to convert future cash-flows to a single current amount. Fair value of current assets is equal to carrying amount, fair value of liabilities from issued securities and other bond-type classes of assets and liabilities not measured at fair value measured based on Reuters market rates, and fair value of other classes not measured at fair value of the statement of financial position is measured at discounted cash-flow method. Fair value of loans, net of loss allowance for loans measured at discount rate adjustment technique, the discount rate is derived from observed rates of return for comparable assets or liabilities that are traded in the market.

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

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

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

a) Fair value of financial assets and liabilities

	2018		2017
	Carrying amount	Fair value	Carrying amount
Cash, amounts due from banks and balances with the National Banks	1,547,272	1,547,272	1,198,045
Placements with other banks, net of loss allowance for placements	420,606	419,458	462,180
Financial assets at fair value through profit or loss	181,356	181,356	344,417
<i>Securities at fair value through profit or loss</i>	<i>77,951</i>	<i>77,951</i>	<i>259,263</i>
<i>Fair value of derivative financial assets held for trading</i>	<i>103,405</i>	<i>103,405</i>	<i>85,154</i>
Securities at fair value through other comprehensive income	1,883,849	1,883,849	2,174,718
Loans at amortized cost and at fair value ¹	8,066,593	8,559,132	6,987,834
Securities at amortized cost	1,740,520	1,810,096	1,310,331
Derivative financial assets designated as hedge accounting	15,201	15,201	10,277
Other financial assets ²	<u>54,666</u>	<u>54,666</u>	<u>53,518</u>
Financial assets total	<u>13,910,063</u>	<u>14,471,030</u>	<u>12,541,320</u>
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	392,706	382,041	472,068
Deposits from customers	11,285,085	11,274,889	10,233,471
Liabilities from issued securities	417,966	488,905	250,320
Held-for-trading derivative financial liabilities	73,316	73,316	69,874
Derivative financial liabilities designated as hedge accounting	7,407	7,407	17,199
Other financial liabilities ³	142,663	142,663	122,812
Subordinated bonds and loans	<u>81,429</u>	<u>72,623</u>	<u>76,028</u>
Financial liabilities total	<u>12,400,572</u>	<u>12,441,844</u>	<u>11,241,772</u>

¹ Higher discount rate due to the lower yield environment resulted in higher fair value comparing to the carrying values.

² Other financial assets contain trade receivables, prepayments and accrued income and receivables from investment services.

³ Other financial liabilities contain account payables, deferrals and liabilities from investments services.

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

b) Fair value of derivative instruments

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

The assessment of the hedge effectiveness (both for fair value hedges and cash flow hedges) to determine the economic relationship between the hedged item and the hedging instrument is accomplished with prospective scenario analysis via different rate shift scenarios of the relevant risk factor(s) of the hedged risk component(s). The fair value change of the hedged item and the hedging instrument is compared in the different scenarios. Economic relationship is justified if the change of the fair value of the hedged item and the hedging instrument are in the opposite direction and the absolute changes are similar amounts. The hedge ratio is determined as the ratio of the notional of the hedged item and the notional of the hedging instrument. The sources of hedge ineffectiveness are the not hedged risk components (e.g. change of cross currency basis spreads in case of interest rate risk hedges), slight differences in maturity dates and interest payment dates in case of fair value hedges, and differences between the carrying amount of the hedged item and the carrying amount of the hedging instrument in case of FX hedges (e.g. caused by interest rate risk components in the fair value of the hedging instrument).

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

	Fair value	
	2018	2017
Interest rate swaps held for trading		
Positive fair value of interest rate swaps held for trading	44,120	33,377
Negative fair value of interest rate swaps held for trading	(27,956)	(30,453)
Foreign exchange swaps held for trading		
Positive fair value of foreign exchange swaps held for trading	31,994	18,047
Negative fair value of foreign exchange swaps held for trading	(27,120)	(14,745)
CCIRS held for trading		
Positive fair value of CCIRS held for trading	12,417	16,976
Negative fair value of CCIRS held for trading	(9,165)	(12,948)
Other derivative contracts held for trading		
Positive fair value of other derivative contracts held for trading	14,874	16,754
Negative fair value of other derivative contracts held for trading	(9,075)	(11,728)
Interest rate swaps designated as fair value hedge		
Positive fair value of interest rate swaps designated as fair value hedge	5,610	6,639
Negative fair value of interest rate swaps designated as fair value hedge	(6,458)	(17,199)
MIRS designated as cash-flow hedge		
Positive fair value of MIRS designated as cash-flow hedge	1,837	-
Negative fair value of MIRS designated as cash-flow hedge	(74)	-
CCIRS designated as fair value hedge		
Positive fair value of CCIRS designated as fair value hedge	4,003	3,638
Negative fair value of CCIRS designated as fair value hedge	(352)	-
Interest rate swaps designated as cash-flow hedge		
Positive fair value of interest rate swaps designated as cash-flow hedge	3,751	-
Negative fair value of interest rate swaps designated as cash-flow hedge	(523)	-
Derivative financial assets total	<u>118,606</u>	<u>95,431</u>
Derivative financial liabilities total	<u>(80,723)</u>	<u>(87,073)</u>
Derivative financial instruments total	<u>37,883</u>	<u>8,358</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 39: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Types of hedge accounting

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

Type of hedge	Type of risk	Type of instrument	Within one month	Within three months and over one month	Within one year and over three months	With and o
Fair Value Hedge	Interest rate risk	Interest rate swap				
		HUF				
		Notional	-	-	163,114	
		Average Interest Rate (%)	-	-	1.72%	
		EUR				
		Notional	10	-	-	
		Average Interest Rate (%)	6.00%	-	-	
		USD				
		Notional	-	-	6	
Average Interest Rate (%)	-	-	2.68%			
Fair Value Hedge	FX & IR risk	Cross currency interest rate swap				
		EUR/HUF				
		Notional	-	1	-2	
		Average Interest Rate (%)	(1.67%)	(1.58%)	(1.70%)	
	Average FX Rate	306.30	310.86	304.09		
Fair Value Hedge	FX risk	Cross currency interest rate swap				
		RON/HUF				
		Notional	-	-	-	
		Average FX Rate	-	-	-	
		RUB/HUF				
		Notional	-	-	-	
Average FX Rate	-	-	-			

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

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

c) Types of hedge accounting [continued]

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

Type of hedge	Type of risk	Type of instrument	Within one month	Within three months and over one month	Within one year and over three months	Within one year and over three months
Fair Value Hedge	Other	Interest rate swap				
		HUF				
		Notional	-	2,879		1,776
Cash flow Hedge	Interest rate risk	Interest rate swap				
		HUF				
		Notional	-	-		-
		Average FX Rate	-	-		-

Derivative financial instruments designated as hedge accounting as follows:

Type of hedge	Type of instrument	Type of risk	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument for the year ended 2018		Line item in the statement of financial position where the hedging instrument is located
				Assets	Liabilities	
Fair value hedge	Interest rate swap	Interest rate risk	661,704	2,649	(6,051)	Derivative financial instrument hedge accounting
	Cross-currency swap	FX & IR risk	12,998	735	(181)	Derivative financial instrument hedge accounting
	Cross-currency swap	FX risk	115,060	4,003	(170)	Derivative financial instrument hedge accounting
	Interest rate swap	Other	38,834	1,818	-	Derivative financial instrument hedge accounting
Cash flow hedge	Interest rate swap	Interest rate risk	173,600	5,588	(597)	Derivative financial instrument hedge accounting

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 39: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Types of hedge accounting [continued]

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

Type of hedge	Type of risk	Carrying amount of the hedged item for the year ended 2018		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item for the year ended 2018		Line item in profit or loss that includes hedge ineffectiveness
		Assets	Liabilities	Assets	Liabilities	
Fair value hedges						
- Loans	<i>Interest rate risk</i>	25,958	-	(162)	-	- Loans
- Government bonds	<i>Interest rate risk</i>	1,236,599	-	(2,298)	-	- Securities
- Government bonds	<i>Interest rate risk</i>	101,707	-	(280)	-	- Securities
- Government bonds	<i>Interest rate risk</i>	1,891	-	(1,563)	-	- Financial
- Other securities	<i>Interest rate risk</i>	185,576	-	(68)	-	- Securities
- Loans	<i>FX & IR risk</i>	13,308	-	7	-	- Loans
- Loans	<i>FX risk</i>	103,905	-	(590)	-	- Loans
- Other securities	<i>Other risk</i>	-	(35,716)	-	5,978	Liabil
Fair value hedges total		<u>1,668,944</u>	<u>(35,716)</u>	<u>(4,954)</u>	<u>5,978</u>	
Cash flow hedges						
- Loans	<i>Interest rate risk</i>	-	(17)	1,100	-	- Due to

Type of instrument	Type of risk	Change in the value of the hedging instrument recognised in cash flow hedge reserve	Hedge effectiveness recognised in profit or loss	Line item in profit or loss that includes hedge ineffectiveness
Interest rate swap	Interest rate risk	(17)	17	Interest income from placements with other banks, net of allowance for placement losses

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

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

d) Fair value levels

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

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

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

As at 31 December 2018	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	180,969	72,676	108,293	-
<i>from this: securities at fair value through profit or loss</i>	77,564	72,377	5,187	-
<i>from this: positive fair value of derivative financial assets held for trading</i>	103,405	299	103,106	-
Securities at fair value through other comprehensive income	1,863,035	1,453,683	398,662	10,690 ¹
Loans mandatorily measured at fair value through profit or loss	34,525	-	-	34,525
Positive fair value of derivative financial assets designated as fair value hedge	9,613	-	9,613	-
Positive fair value of derivative financial assets designated as cash-flow hedge	<u>5,588</u>	-	<u>5,588</u>	-
Financial assets measured at fair value total	<u>2,093,730</u>	<u>1,526,359</u>	<u>522,156</u>	<u>45,215</u>
Financial liabilities at fair value through profit or loss	32,231	-	-	32,231
Negative fair value of held-for-trading derivative financial liabilities	73,316	1,294	72,022	-
Negative fair value of derivative financial liabilities designated as fair value hedge	6,810	-	6,810	-
Negative fair value of derivative financial liabilities designated as cash-flow hedge	<u>597</u>	-	<u>597</u>	-
Financial liabilities measured at fair value total	<u>112,954</u>	<u>1,294</u>	<u>79,429</u>	<u>32,231</u>
As at 31 December 2017	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	340,749	159,049	181,700	-
<i>from this: securities at fair value through profit or loss</i>	255,595	158,769	96,826	-
<i>from this: positive fair value of derivative financial assets held for trading</i>	85,154	280	84,874	-
Securities at fair value through other comprehensive income	2,151,973	1,693,738	448,397	9,838 ¹
Positive fair value of derivative financial assets designated as fair value hedge	<u>10,277</u>	-	<u>10,277</u>	-
Financial assets measured at fair value total	<u>2,502,999</u>	<u>1,852,787</u>	<u>640,374</u>	<u>9,838</u>
Negative fair value of held-for-trading derivative financial liabilities	69,874	188	69,686	-
Negative fair value of derivative financial liabilities designated as fair value hedge	<u>17,199</u>	-	<u>17,199</u>	-
Financial liabilities measured at fair value total	<u>87,073</u>	<u>188</u>	<u>86,885</u>	<u>=</u>

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

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

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

d) Fair value levels [continued]

Movements in Level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amount of Level 3 securities at fair value through other comprehensive income which are recorded at fair value:

Movement on securities at fair value through other comprehensive income in Level 3	Opening balance	Increase / (Decrease)	Closing balance
OTP Bank Plc.	2,410	736	3,146
DSK Bank EAD	2,147	307	2,454
OTP Factoring Ltd.	2,179	84	2,263
OTP banka Hrvatska d.d.	488	578	1,066
OTP Factoring Ukraine LLC	713	(28)	685
OTP Bank Romania S.A.	437	134	571
OTP Banka Slovensko a.s.	385	120	505
Splitska banka d.d.	<u>1,079</u>	<u>(1,079)</u>	<u>=</u>
Total	<u>9,838</u>	<u>852</u>	<u>10,690</u>

There were no movements among the levels of fair value hierarchy neither in the year ended 31 December 2018 nor for the year ended 31 December 2017.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 40: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS
(in HUF mn)

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

The reportable segments of the Group on the base of IFRS 8 are the following:

OTP Core Hungary, Russia, Ukraine, Bulgaria, Romania, Serbia, Croatia, Slovakia, Montenegro, Leasing subsidiaries, Asset Management subsidiaries, Other subsidiaries and Corporate Center.

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

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

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

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

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

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

Goodwill / investment impairment and their tax saving effect:

As at 31 December 2018 HUF 4,136 million tax shield was recognized due to impairment on investment, which affect was partly compensated by HUF 2,903 million release of impairment. Altogether with HUF 5,962 million goodwill impairment on OTP Real Estate Lease Ltd. and Monicomp Ltd. negative tax effect was recognized in the amount of HUF 4,729 million. In year 2017 HUF 1,824 million impairment on investment and HUF 7,384 million release of impairment with HUF 504 million goodwill impairment on OTP Banka Slovensko a.s. altogether resulted in HUF 6,064 million negative tax effect.

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 40: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS
(in HUF mm) [continued]

As at 31 December 2018

Main components of the Consolidated Statement of Profit or Loss in HUF million	OTP Group - consolidated - in the Consolidated Statement of Profit or Loss - structure of accounting reports	Adjustments on the accounting in Recognized Income	OTP Group - consolidated - in the Consolidated Statement of Profit or Loss - structure of management reports	OTP CORE (Hungary)	Foreign banks subtotal (without adjustments)	JSC "OTP Bank" (Russia) and Touch Bank	OTP Bank JSC (Ukraine)	DSK Bank EAD (Bulgaria)	OTP Bank Romania S.A. (Romania)	OTP banka Srbija a.d. and Vojvodjanska banka a.d. (Serbia)	OTP banka Hrvatska d.d. (Croatia)	OTP Banka Slovensko a.s. (Slovakia)	Cnogorska komercijalna banka a.d. (Montenegro)
	a	b	1=a+b	2	3=4+...+11	4	5	6	7	8	9	10	11
Net profit for the year	318,322		318,322										
Adjustments (total)		(7,014)	(7,014)										
Dividends and net cash transfers (after income tax)		457	457										
Goodwill/investment impairment (after income tax)		(4,729)	(4,729)										
Bank tax on financial institutions (after income tax)		(15,286)	(15,286)										
Effect of acquisition (after income tax)		(6,844)	(6,844)										
Impact of fines imposed by the Hungarian Competition Authority (after income tax)		565	565										
Initial NPV gain on the monetary policy interest rate swap (MIRS) deals (after income tax)		18,823	18,823										
Consolidated adjusted net profit for the year	318,322	7,012	325,334	180,445	122,195	16,421	24,414	47,295	3,850	2,999	24,960	43	2
Profit before income tax	352,159	10,575	362,734	195,162	143,086	21,035	29,174	51,603	4,901	3,137	30,598	99	2
Adjusted operating profit	391,446	(6,537)	384,909	144,578	213,538	68,879	30,094	57,097	10,585	6,227	35,455	2,597	2
Adjusted total income	964,727	(83,001)	881,726	378,534	449,963	129,900	47,144	107,817	30,759	30,306	78,295	15,013	1
Adjusted net interest income	624,723	(24,892)	599,831	245,934	322,168	102,489	33,040	69,979	23,410	20,514	54,059	11,148	
Fee and commission income related to lending	22,915	0	22,915	5,482	16,959	10,146	1,530	2,686	706	317	751	777	
Fee and commission income related to deposit and account maintenance	144,942	0	144,942	94,744	51,054	6,274	4,376	16,515	2,513	5,662	10,748	2,483	
Fee and commission related to bank cards	94,395	0	94,395	65,447	29,511	5,375	4,997	6,649	1,671	1,832	5,962	985	
Fee and commission income related to security trading	19,448	0	19,448	22,452	5,596	1	82	4,340	0	93	1,021	7	
Other fee and commission income	56,381	(56,958)	(577)	(45,788)	23,317	11,306	3,907	2,828	787	643	2,750	745	
Fee and commission income	338,081	(56,958)	281,123	142,357	126,417	33,102	14,892	33,018	5,677	8,547	21,232	4,997	
Fee and commission expenses	(60,405)	14	(60,391)	(35,347)	(24,120)	(6,335)	(3,449)	(2,583)	(2,114)	(1,262)	(5,190)	(1,462)	(1)
Adjusted net profit from fees and commissions	277,676	(56,944)	220,732	107,010	102,297	26,767	11,443	30,435	3,563	7,285	16,042	3,535	
Adjusted other net non-interest income	62,328	(1,165)	61,163	25,590	25,498	644	2,661	7,403	3,786	2,507	8,194	330	
Adjusted other administrative expenses	(573,281)	76,464	(496,817)	(233,956)	(236,425)	(61,021)	(17,050)	(50,720)	(20,174)	(24,079)	(42,840)	(12,416)	(8)
Total risk costs	(39,287)	13,119	(26,168)	46,591	(70,452)	(47,844)	-920	(5,494)	(5,684)	(3,090)	(4,857)	(2,498)	
Adjusted provision for impairment on loan and placement losses (without the effect of revaluation of FX)	(39,287)	20,004	(19,283)	48,192	(67,027)	(42,204)	(1,680)	(9,532)	(4,794)	(3,146)	(3,046)	(2,579)	
Other provision (adjustment)	0	(6,885)	(6,885)	(1,601)	(3,425)	(5,640)	760	4,038	(890)	56	(1,811)	81	
Total other adjustments (one-off items)¹	0	3,993	3,993	0	0	0	0	0	0	0	0	0	0
Income tax	(33,837)	(3,563)	(37,400)	(14,717)	(20,891)	(4,614)	(4,760)	(4,308)	(1,051)	(138)	(5,638)	(56)	
Total Assets	14,590,288	0	14,590,288	8,563,425	7,358,790	707,593	391,240	2,281,275	771,968	590,166	1,837,158	454,498	224
Total Liabilities	12,763,631	0	12,763,631	7,001,737	6,217,042	559,595	333,419	1,927,384	711,922	505,318	1,568,032	425,116	186

() used at: provisions, impairment and expenses

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

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

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

As at 31 December 2017

Main components of the Consolidated Statement of Profit or Loss in HUF million	OTP Group - consolidated - in the Consolidated Statement of Profit or Loss - structure of accounting reports	Adjustments on the accounting in Recognized Income	OTP Group - consolidated - in the Consolidated Statement of Profit or Loss - structure of management reports	OTP CORE (Hungary)	Foreign banks subtotal (without adjustments)	JSC "OTP Bank" (Russia) and Touch Bank	OTP Bank JSC (Ukraine)	DSK Bank EAD (Bulgaria)	OTP Bank Romania S.A. (Romania)	OTP banka Srbija a.d. and Vojvodjinska banka a.d. (Serbia)	OTP banka Hrvatska d.d. (Croatia)	OTP Banka Slovensko a.s. (Slovakia)	Cmogorska komercijalna banka a.d. (Montenegro)
	a	b	1=a+b	2	3=4+...+11	4	5	6	7	8	9	10	11
Net profit for the year	281,339		281,339										
Adjustments (total)		(2,732)	(2,732)										
Dividends and net cash transfers (after income tax)		680	680										
Goodwill investment impairment (after income tax)		(6,064)	(6,064)										
Bank tax on financial institutions (after income tax)		(15,233)	(15,233)										
Effect of acquisition (after income tax)		177	177										
Impact of fines imposed by the Hungarian Competition Authority (after income tax)		17,708	17,708										
Consolidated adjusted net profit for the year	281,339	2,733	284,072	168,576	96,652	20,381	14,120	47,121	3,035	(2,905)	17,107	(2,051)	
Profit before income tax	322,842	(1,421)	321,421	185,562	115,015	26,079	17,074	52,041	3,951	(3,014)	20,849	(1,820)	
Adjusted operating profit	363,690	(531)	363,159	150,834	192,737	64,497	18,876	61,460	9,345	1,360	28,781	6,616	
Adjusted total income	863,140	(58,195)	804,945	365,592	398,148	127,249	34,595	108,290	27,137	10,071	63,645	17,452	
Adjusted net interest income	553,756	(7,102)	546,654	234,304	289,639	103,094	23,060	72,257	19,779	7,235	44,313	13,358	
Fee and commission income related to lending	26,168	0	26,168	10,162	15,669	8,337	1,004	3,544	687	254	584	927	
Fee and commission income related to deposit and account maintenance	126,280	0	126,280	84,843	41,942	6,303	4,045	14,500	2,310	1,717	8,172	2,610	
Fee and commission related to bank cards	84,282	0	84,282	60,066	24,338	5,662	3,663	5,891	1,394	710	4,515	741	
Fee and commission income related to security trading	25,005	0	25,005	28,007	4,795	1	68	3,902	0	11	774	7	
Other fee and commission income	53,871	(51,770)	2,101	(41,480)	20,171	10,055	3,166	2,526	696	332	2,414	647	
Fee and commission income	315,606	(51,770)	263,836	141,598	106,915	30,358	11,946	30,363	5,087	3,024	16,459	4,932	
Fee and commission expenses	(54,413)	5	(54,408)	(32,469)	(21,462)	(7,223)	(2,230)	(2,649)	(2,024)	(749)	(3,855)	(1,305)	
Adjusted net profit from fees and commissions	261,193	(51,765)	209,428	109,129	85,453	23,135	9,716	27,714	3,063	2,275	12,604	3,627	
Adjusted other net non-interest income	48,191	672	48,863	22,159	23,056	1,020	1,819	8,319	4,295	561	6,728	467	
Adjusted other administrative expenses	(499,450)	57,664	(441,786)	(214,758)	(205,411)	(62,752)	(15,719)	(46,830)	(17,792)	(8,711)	(34,864)	(10,836)	
Total risk costs	(40,848)	(4,835)	(45,683)	30,783	(77,722)	(38,418)	-1,802	(9,419)	(5,394)	(4,374)	(7,932)	(8,436)	
Adjusted provision for impairment on loan and placement losses (without the effect of revaluation of FX)	(40,848)	9,789	(31,059)	33,586	(67,107)	(37,561)	(1,060)	(3,571)	(5,062)	(3,133)	(7,498)	(8,358)	
Other provision (adjustment)	0	(14,624)	(14,624)	(2,803)	(10,615)	(857)	(742)	(5,848)	(332)	(1,241)	(434)	(78)	
Total other adjustments (one-off items)¹	0	3,945	3,945	3,945	0	0	0	0	0	0	0	0	
Income tax	(41,503)	4,154	(37,349)	(16,986)	(18,363)	(5,698)	(2,954)	(4,920)	(916)	109	(3,742)	(231)	
Total Assets	13,190,228	0	13,190,228	7,704,135	6,488,032	671,724	312,334	1,925,740	624,060	482,887	1,821,613	452,084	197,000
Total Liabilities	11,550,173	0	11,550,173	6,273,879	5,635,488	529,369	278,254	1,675,445	570,578	402,817	1,582,678	419,884	176,000

() used at: provisions, impairment and expenses

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

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

NOTE 41: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2018

Term Note Program

See details in Note 16.

NOTE 42: POST BALANCE SHEET EVENTS

1) New acquisition in Albania

On 1 August, 2018 the Bank signed an acquisition agreement on purchasing 88.89% shareholding of Banka Societe Generale Albania SH. A. („SGAL”), the Albanian subsidiary of Société Générale Group. With a market share of nearly 6%, SGAL is the 5th largest bank on the Albanian banking market and as a universal bank it has been active in the retail and corporate segment as well. The financial closing of the transaction is expected in the first half year of 2019 subject to obtaining all the necessary regulatory approvals.

2) New acquisition in Bulgaria

The financial closure of the transaction, based on the acquisition agreement on purchasing 99.74% shareholding of Societe Generale Expressbank („SGEB”), the Bulgarian subsidiary of Societe Generale Group (“SG”), and other local subsidiaries held by SGEB, between Societe Generale Group and DSK Bank EAD (“DSK Bank”), the Bulgarian subsidiary of OTP, has been completed on 15 January 2019. The acquisition agreement between SG and DSK Bank was signed on 1 August 2018. With a market share of approximately 6.4% Societe Generale Expressbank is the 7th largest bank on the Bulgarian banking market and as a universal bank it has been active in the retail and corporate segment as well. The integration process is expected to be completed in 2020.

3) New acquisition in Moldova

On 5 February, 2019 the Bank signed an acquisition agreement on purchasing 87.85% shareholding of Mobiasbanca – Groupe Societe Generale S.A. („SGMB”), the Moldovan subsidiary of Societe Generale Group. With a market share of 13.3%, SGMB is the 4th largest bank on the Moldovan banking market and as a universal bank it has been active in the retail and corporate segment as well. The financial closure of the transaction is expected in the coming months subject to obtaining all the necessary regulatory approvals.

4) New acquisition in Serbia

On 19 December, 2018 the Bank signed an acquisition agreement on purchasing 100% shareholding of Societe Generale Banka Srbija a.d. („SGS”), the Serbian subsidiary of Societe Generale Group and all subsidiaries held by SGS. With a market share of 8.4% based on total assets, SGS is the 4th largest bank on the Serbian banking market and as a universal bank it has been active in the retail and corporate segment as well. The financial closing of the transaction is expected in the first half year of 2019 subject to obtaining all the necessary regulatory approvals.

5) New acquisition in Montenegro

Crnogorska komercijalna banka a.d., the Montenegrin subsidiary of OTP signed an acquisition agreement on purchasing 90.56% shareholding of Societe Generale banka Montenegro a.d. („SGM”), the Montenegrin subsidiary of Societe Generale Group. With a market share of 11.5%, SGM is the 4th largest bank on the Montenegrin banking market and as a universal bank it has been active in the retail and corporate segment as well. The financial closure of the transaction is expected in the coming months subject to obtaining all the necessary regulatory approvals.

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

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

The **eurozone's** annual growth rate slowed to 1.8% in 2018 according to preliminary data, down from a skyrocketing 2.5% on yearly basis performance in 2017, and the storm clouds never stop gathering – in the form of intensifying trade war, the politics of Italy's new government, the faltering Brexit talks, the new emission rules in the auto industry, and Turkey's problems. At the beginning of 2018, the modest growth figures could be attributed to one-off or country-specific factors (e.g. the several-week-long railway strikes in France), it was not before the second half of the year when it became clear that the performance in year 2018 would be nowhere near the previous year's one, and the annualized quarterly growth rate slowed to less than 1% by the second half of the year. Based on the currently available data, the moderate performance owes a lot to the core countries, particularly Germany and Italy. Dancing on thin ice, Italy became less worrisome by the end of the year, but its new government still plans a string of fiscal loosening measures, and the resulting increase in public debt is not in sync with the EU's requirements, moreover, investors' confidence in financing the country's debt has wobbled. Although the EU's decision-makers approved the Brexit agreement drafted in November, the House of Commons of the UK Parliament rejected the bill several times, even though EU leaders repeatedly ruled out re-opening talks into the deal.

At the end of 2018, the European Central Bank (“ECB”) phased out its asset purchase programme and thus launched the second monetary tightening – but seeing the eurozone's growth data, interest rate hikes –previously supposed to take place in the second half of 2019– now seem unlikely, and the ECB will be cautious about further tightening monetary conditions.

The growth rate in the **United States** may have been around 3.0% in 2018, but it is likely to slow in the near future. This is partly because the effect of the tax cut programme, which used to fuel growth, is now fading; besides, the trade war left its mark on the economy's performance, and its resolution is making no progress, despite the on-going negotiations. Thus the USA's import tariffs on Chinese goods worth USD 100 billion remain in place. Following the autumn elections, Republicans retained majority in Senate, but Democrats gained the upper hand in the House of Representatives. It did not take long for the two parties to clash, over the funding of the wall planned on the Mexican border, ultimately resulting in more-than-one-month-long government shutdown.

Meanwhile the Fed raised the benchmark rate four times in 2018 (to 2.25-2.5), but the post-meeting statements' language became increasingly cautious about the future schedule of tightening. In January 2019, the communication shifted markedly, by pointing out that in the light of global economic and financial events, central bankers will be flexible about unwinding the Fed's balance sheet and will be cautious in continuing the tightening cycle – this makes rate hikes in 2019 unlikely, and the reducing the balance sheet will be reduced slower than earlier planned.

Despite the fast deterioration in the external environment, **Hungary's** full-year 2018 GDP growth rate surpassed expectations and our own forecast. The 4.8% growth rate marks the second fastest one in the history of Hungary (surpassed only in 2004) and in comparison to its regional peers (preceded by Poland only). Just like in 2017, this robust growth was largely driven by domestic demand – consumption expanded by 5%, and investment surged 17%, equally benefiting from EU-co-financed public investment projects and capacity-boosting private investment.

Following the peak in 2016, Hungary's current account surplus shrank further. Based on the latest figures, the surplus may have decreased to 1.3% of GDP, down from 6.3% in 2016 and 3.2% in 2017. Reasons include higher crude prices, the deterioration in Europe's business cycle, the subsiding exports owing to the new WLTP (Worldwide Harmonized Light Vehicles Test Procedure) measure, the rising import need of the strong domestic demand, and foreign-owned companies' higher profits also worsen the balance of income. Nevertheless, Hungary's net financing capacity still runs surplus, its net foreign direct investment inflow is positive, and net annual debt repayment reaches 3-4% of GDP. External debt is still shrinking, but it is average-sized in regional comparison.

Regarding Hungary's labour market, the trend that began in 2017 continued last year. Employment grew further and the unemployment rate fell to 3.7%. The shortage of labour causes capacity constraints in some segments of the labour market. Gross wages grew by more than 10% on yearly basis in the first 11 months of the year, but the accelerating inflation reduced real wages in the second half of the year, which left its mark on retail sales' growth pace as well.

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

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

By the third quarter of 2018, Hungary's accrual-based four-quarter government deficit fell to 1.9% of GDP, thus the 2018 balance may have been around 2.2% of GDP, less than the official target of 2.4%. The central budget received more than HUF 1,000 billion EU funding in the fourth quarter, thus public debt may have shrunk to 71% of GDP by the end of the year.

Consumer prices grew by an average of 2.8% in 2018, up from 2.5% a year earlier. Inflation was a result of opposing effects. On the one hand, the combination of robust domestic demand, the wage growth caused by the tight labour market, an increase in seasonal food prices, and a pick-up in oil prices in the second half of the year have temporarily sent the consumer price index above 3%, but then oil prices declined, second-hand-car prices fell owing to the diesel emission scandal, and the base effects in some food products all dragged inflation down.

In line with the world's leading central banks, the tightening cycle began in some countries in Central and Eastern Europe (Romania and the Czech Republic). In the second half of 2018, the NBH's communication included multiple changes that pointed towards tightening the extremely loose monetary conditions – but no measures followed them.

The NBH's September meeting brought some change, when the central bank announced that, by transforming its monetary policy tools, the NBH is prepared for the gradual and cautious normalization of monetary policy: it abandoned 3-month deposit facility and the required reserve became the benchmark tool, ended the monetary policy interest rates swap (“MIRS”) and the mortgage bond purchase program, but the FX swap volume was not fully wound down. As a new tool, the Funding for Growth fixed scheme was introduced, with an aim to increase the share of fixed-interest rate loans within the small and medium enterprises sector. As the global environment is likely to remain volatile, we expect the Central and Eastern Europe region's currency rates to see-saw, but the depreciation pressure on the forint is likely to ease. This January the NBH gave another strong signal, which points toward the beginning of the tightening, but the unpredictability of the external environment may provide reason for putting off normalization. The NBH's most recent forecast is based on 3.5% economic growth and 2.9% consumer price index for 2019.

The economy of **Russia** grew by 2.3% in 2018, beating market expectations by a large margin. Even though households' consumption slowed as the fiscal adjustment eroded their incomes, exports increased by a fairly robust rate of 6.3%. This latter benefited from a strong expansion in the export of mining products and cereals. Meanwhile, the accelerating construction output supported gross capital formation. Price pressure intensified as inflation accelerated from 2.3% in June to 4.3% in December. This is mostly because of the higher food prices, as harvest in 2018 deteriorated from the previous year. Meanwhile Russia ran a budget surplus of 2.7% of GDP, for the first time since 2008, thanks to an increase in oil prices compared to 2017, and as a result of the stringent budget. Simultaneously, the current account surplus hit a record high at 7% of GDP. The growing FX revenues have boosted international reserves (to USD 468 billion by the end of the year) and helped the budget to replenish its reserve fund.

Citing the higher inflationary pressure and risk premium, the Central Bank of Russia embarked on a monetary tightening in the second half of 2018. The VAT hike in 2019 may send inflation much higher than the central bank's target of 5-5.5%. In addition, the new American sanctions added to the risk premium on Russian assets, causing a depreciation pressure on the currency market, which the Central Bank of Russia also took into consideration.

Looking forward, Russia's GDP growth rate is likely to slow to 1.8% this year, as the VAT hike adversely affects retail consumption. Meanwhile, exports may slow as Russia's joining OPEC's agreement reduces oil production, while the export of cereals may also drop. Furthermore, the strict fiscal and monetary policies do not support growth either. Nevertheless, spending on infrastructure is expected to speed up investment. The better-than-expected 2018 figure poses an upside risk to this year's forecast, while any further US sanction would worsen economic outlook.

The biggest problem of Russia's economy is the low diversification of production, and the resulting weak long-term growth potential of 1.5-2.0%, which is rather low compared to its level of development. Nonetheless, the new three-year budget comes with ambitious reform plans (e.g. infrastructure development, raising the retirement age), the combined effect of which may bring medium-term growth outlook closer to 2%.

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

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

Ukraine's economy expanded by around 3% in 2018, with domestic demand being the engine of growth. Although the strong investment dynamics subsided by the second half of the year, the rising wages and the remittances by migrant workers boosted consumption. In the first nine months of the year, consumption surged 7% from the same period of 2017. We expect the economy to have grown by 3.2% in full-year 2018, which may slow to 2.7% by 2019, as both domestic demand and the world economy's growth lose speed.

The rate of inflation had slowed to 10.9% (from 14.5% in 2017), somewhat overshooting the central bank's expectation. Citing this, and also as the risks surrounding the International Monetary Fund ("IMF") programme have increased, the National Bank of Ukraine raised the base rate from 14.5% to 18%. In the first half of the year, the USD/UAH was stable around 26, but the uncertainty about the IMF programme sent it above 28 in August 2018. Since then, the hryvnia has been slowly appreciating.

Despite Ukraine's encouraging growth potential, the refinancing risk of maturing debt remains rather high, particularly in the current global capital market environment, when risk appetite subsided – this makes the continuing of the IMF programme crucial for Ukraine.

The IMF programme that started in 2015 has ended in the second half of 2018 without completing the reform plans. It was replaced by a 1.3-billion-dollar temporary IMF facility that will last until the beginning of 2020, with an aim to secure a stable financing background for Ukraine for the 2019 elections.

From 2017 the base of the **Hungarian** banking tax is the adjusted balance sheet total at the actual calendar year minus two years (i.e. for the 2018 banking tax calculation the end-2016 adjusted total assets must be used). Effective from 2017 the applicable upper tax rate has been moderated to 0.21%. The total annual amount of the banking tax payable in 2018 was already booked in one sum in the first quarter of 2018. From 2018 the bank tax rate further moderated, by 1 basis point to 0.20%.

In 2018 more than 12,000 applications for the Housing Subsidy Scheme for Families (CSOK) subsidy were registered at OTP Bank with a value of over HUF 40 billion.

In accordance with a legislative change effective from 17 October 2018 the state subsidy for new building society contracts was phased out (the subsidy in the case of already existing contracts won't change). Simultaneously, the Government suggested that the potential savings in the central budget would be re-allocated for extending the Housing Subsidy for Families scheme (CSOK). As a result, on 25 October the Government decided on extending the CSOK, in particular families with two children will be eligible for a preferential housing loan in the amount of up to HUF 10 million (with fix 3% interest rate), whereas the original amount of HUF 10 million preferential loan for families with three children will be increased to HUF 15 million. The new conditions came into force from 1 December 2018.

With respect to mortgage lending, one of the most important and spectacular development was the steady and unambiguous rise in the popularity of fixed rate mortgages. At OTP the proportion of fixed rate housing loans (with an interest rate fixation period of at least 5 years) within non-subsidized housing loan applications reached 97% in the fourth quarter of 2018, up from around 50% in 2017 as a whole. It was also positive that in the last several months the applications for mortgages with a repricing period of 10 years or more gained further ground: in the fourth quarter of 2018 the aggregated volume of applications for loans with fixation period of 10 and 20 years was close to 80% within total fixed rate credits. The above developments were stimulated by the deliberate policies taken by the NBH, through the introduction of the certified consumer-friendly housing loans and the amendments to the payment-to-income ("PTI") rules effective from 1 October 2018. In the fourth quarter of 2018 the share of certified customer-friendly mortgages within new fixed rate market-based housing loan applications exceeded 70%.

As for debt brake rules, the NBH decided to amend the regulation on the PTI ratio, in order to further promote the safer fixed rate mortgages. Effective from 1 October 2018, in the case of taking out a new HUF denominated mortgage loan the debtor's total monthly debt service cannot exceed certain % of their regular net monthly income, as stipulated in the relevant central bank decree.

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

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

According to the decision by the Monetary Council ("MC") of the NBH on 21 November 2017 the MC introduced an unconditional IRS facility, with 5 and 10 years maturity. Counterparty banks could access the IRS facility on regular tenders from the beginning of January 2018. In line with the fine-tuning of the unconventional policy instruments affecting long-term yields, the on 18 September 2018 MC made a decision to phase out the monetary policy IRS facilities by the end of 2018. The Council set the annual maximum stock of monetary policy IRS ("MIRS") for 2018 at HUF 1,100 billion.

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

Taking into consideration the NBH's guidelines, OTP – with the consent of the auditor – decided to book the total initial positive NPVs in one lump sum within its statement of profit or loss, which was HUF 20.7 billion before tax gain (HUF 18.8 billion after tax).



OTP BANK PLC.

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

***FOR THE YEAR ENDED
31 DECEMBER 2017***

INDEPENDENT AUDITORS' REPORT

To the Shareholders of OTP Bank Plc.

Opinion

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

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

Basis for Opinion

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

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

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

Emphasis of Matter

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

Key Audit Matters

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

Key audit matter	How our audit addressed the matter
Impairment of loans	
<p>(See notes 8., 24., and 28.1. of the notes to the consolidated financial statements for the details)</p> <p>At the year end, the Group reported total gross loans of HUF 7,726,630 million and provisions for impairment on loan losses of HUF 738,796 million. The determination of impairment of loans requires application of professional judgement and use of subjective assumptions by management in case of both the application of portfolio based collective impairment models, and determination of individual specific impairment of loans. The most significant assumptions applied in calculating the provision are the following:</p> <ul style="list-style-type: none"> - valuation of collateral; - estimated time to realize collateral; - probability of default and recovery rates; and - estimation of future cash-flows expected to be realized. <p>Based on the significance of the above described circumstances, the calculation of impairment of loans was considered as a key audit matter.</p>	<p>Our response as auditors included:</p> <ul style="list-style-type: none"> - involvement of our actuarial and valuation experts to assist us in performing our procedures; - evaluating internal controls relating to monitoring of loans and calculating and recording of impairment; - sample based testing of specific loan impairments, including the assessment of valuation of collateral and estimation of expected future cash-flows; - assessing on a sample basis, whether the impairment triggers are captured and whether the estimation of the impairment is appropriate; - assessing the appropriateness of collective provisioning models; and - evaluating inputs, assumptions, management estimates and parameters applied, including comparison with historical data, and recalculating the impairment charge.

Key audit matter	How our audit addressed the matter
Valuation of goodwill	
<p>(See notes 11. and 32. of the notes to the consolidated financial statements for the details)</p> <p>The Bank performed several acquisitions in prior years, and as a result of these acquisitions a net amount of HUF 100,976 million of goodwill is presented in the consolidated statement of financial position.</p> <p>As required by the applicable accounting standards, management conducts regular impairment tests (at least annually) to assess whether there is a need to record impairment with respect to the goodwill.</p> <p>These impairment tests take into account several significant assumptions and the professional judgement of management including the application of discount rates, growth rates, cost levels and future risk costs.</p> <p>Accordingly, the valuation of goodwill is considered to be a key audit matter.</p>	<p>Our response as auditors included:</p> <ul style="list-style-type: none"> - involvement of our valuation experts to assist us in performing our procedures; - assessing the appropriateness of the assumptions applied by management in the DCF calculations; - analysing the valuation models applied by management and considering the applied parameters whether they are appropriate and unbiased by examining available external and internal information; - performing sensitivity analysis on the key parameters of the models; and - assessing the appropriate application of the relevant accounting standards during the recording of the transactions, the related journal entries and disclosures required by those standards.

Key audit matter	How our audit addressed the matter
Business combinations	
<p>(See notes 11. and 32. of the notes to the consolidated financial statements for the details)</p> <p>The Bank performed significant acquisitions (acquisition of Splitska Banka and Vojvodjanska banka and their subsidiaries) during 2017 and a HUF 32,221 million gain was realized on bargain purchases relating to these acquisitions.</p> <p>As required by the applicable accounting standards, management performed a fair valuation of the identifiable assets, liabilities and contingent liabilities at the date of acquisition and determined the gain achieved on the bargain purchases by comparing the result of these valuations with the applicable purchase price.</p> <p>Significant judgement is applied in the identification of any intangible assets acquired and contingent liabilities assumed in the transactions. Significant assumptions and estimates are also used in the determination of the fair values of the identified assets acquired and liabilities assumed in the transactions, as this process involves estimation and judgement of future performance of the businesses and discount rates applied to future cash-flow forecasts, as well as determination of applicable current market interest rates and selection of appropriate valuation methods.</p> <p>Accordingly, the accounting for business combinations is considered to be a key audit matter.</p>	<p>Our response as auditors included:</p> <ul style="list-style-type: none"> - involvement of our valuation experts to assist us in performing certain specific procedures and analysing the sale and purchase agreement to identify the key terms and conditions, and confirming our understanding of the transaction with management; - evaluating the assets and liabilities identified in the acquisition accounting; - evaluating fair valuation models applied by management together with the applied assumptions and the calculation of the gain achieved in the bargain purchases. We have rechecked those calculations taking all assumptions into consideration, to assess whether the gain on bargain purchase is reasonable for the transaction; - considering the appropriateness of the identified intangible assets and examining whether the applied parameters are unbiased based on external and internal information; - assessing whether the fair value of the non-financial instruments are supported by reasonable assumptions and proper valuation models; and - assessing the appropriate application of the relevant accounting standards, the related journal entries and disclosures.

Other Information

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

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

Furthermore, in accordance with the Accounting Act, our responsibilities regarding the consolidated business report also include reviewing the consolidated business report to assess whether the consolidated business report was prepared in accordance with the relevant provisions of the Accounting Act and other regulations, if any, including the assessment whether the consolidated business report complies with the requirements of Section 95/B (2) e) and f) of the Accounting Act. Furthermore, in accordance with the Accounting Act we shall make a statement whether the information referred to in Section 95/B. (2) a)-d), g) and h) has been provided in the consolidated business report, and whether the consolidated business report contains the non-financial statement provided for in Section 134 (5).

In our opinion, the consolidated business report of the Group for 2017 corresponds to the consolidated financial statements of the Group for 2017 and the relevant provisions of the Accounting Act in all material respects. The information referred to in Section 95/B. (2) a)-d), g) and h) of the Accounting Act has been provided and the consolidated business report contains the non-financial statement provided for in Section 134 (5).

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

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

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

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

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

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

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

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

We also:

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment of the Auditor and the Period of Engagement

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

Consistence with the Additional Report to the Audit Committee

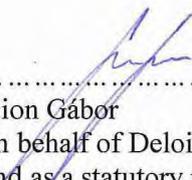
We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of OTP Bank Plc., which we issued on March 13, 2018 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and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

Provision of Non-audit Services

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

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

Budapest, March 13, 2018


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

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

Registration number of statutory registered auditor: 005252

OTP BANK PLC.
CONSOLIDATED FINANCIAL STATEMENTS

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OTP BANK PLC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017
(in HUF mn)

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

Budapest, 13 March 2018

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Dr. Sándor Csányi
Chairman and Chief Executive Officer

OTP BANK PLC.
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2017
(in HUF mm)

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

OTP BANK PLC.
CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017
(in HUF mn)

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

OTP BANK PLC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017
(in HUF mn)

	Note	Share capital	Capital reserve	Share-based payment reserve	Retained earnings and reserves ¹	Option reserve
Balance as at 1 January 2016		<u>28,000</u>	<u>52</u>	<u>24,707</u>	<u>1,291,738</u>	<u>(55,468)</u>
Net profit for the period		-	-	-	202,210	-
Other Comprehensive Income		-	-	-	36,565	-
Share-based payment	30.	-	-	3,530	-	-
Dividend for the year 2015		-	-	-	(46,200)	-
Sale of Treasury shares	22.	-	-	-	-	-
Treasury shares						
– loss on sale		-	-	-	(3,915)	-
– acquisition	22.	-	-	-	-	-
Payments to ICES holders	21.	-	-	-	(3,741)	-
Balance as at 31 December 2016		<u>28,000</u>	<u>52</u>	<u>28,237</u>	<u>1,476,657</u>	<u>(55,468)</u>
Net profit for the period		-	-	-	281,142	-
Other Comprehensive Income		-	-	-	(4,920)	-
Share-based payment	30.	-	-	3,598	-	-
Dividend for the year 2016		-	-	-	(53,200)	-
Sale of Treasury shares	22.	-	-	-	-	-
Treasury shares						
– loss on sale		-	-	-	(2,839)	-
– acquisition	22.	-	-	-	-	-
Payments to ICES holders	21.	-	-	-	(1,380)	-
Balance as at 31 December 2017		<u>28,000</u>	<u>52</u>	<u>31,835</u>	<u>1,695,460</u>	<u>(55,468)</u>

¹ See details in Note 21.

The accompanying notes to consolidated financial statements on pages 8 to 106 form an integral part of these Consolidated Financial Statements prepared in accordance with the International Financial Reporting Standards.

OTP BANK PLC.
CONSOLIDATED STATEMENT OF CASH-FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017
(in HUF mn)

OPERATING ACTIVITIES	Note	2017	2016 (Restated)
Profit before income tax		322,842	236,395
Dividend income		(4,152)	(3,054)
Depreciation and amortization	11.	48,988	44,427
Goodwill impairment	11.	504	-
Release of provision on securities	7.,10.	(10)	(55)
Provision for impairment on loan and placement losses	5.,8., 24.	40,848	93,473
Provision for impairment on investments	9.	184	687
(Release of provision) / Provision for impairment on investment properties	12.	(71)	833
Provision for impairment on other assets	13.	8,213	2,218
Provision / (Release of provision) on off-balance sheet commitments and contingent liabilities	18.	15,957	(15,268)
Share-based payment	2.,30.	3,598	3,530
Unrealized gains / (losses) on fair value change of securities held for trading		18,335	(9,969)
Unrealized gains on fair value change of derivative financial instruments		11,966	14,762
<i>Net changes in assets and liabilities in operating activities</i>			
Net increase in financial assets at fair value through profit or loss		(92,524)	(40,988)
Net increase in loans, before allowance for loan losses		(415,250)	(412,425)
Net increase in other assets before provisions for impairment		(10,737)	(30,622)
Net increase in deposits from customers		582,112	556,004
Net (decrease) / increase in other liabilities		(118,048)	100,329
Net decrease / (increase) in compulsory reserves at the National Banks		99,391	(45,079)
Income tax paid		<u>(14,797)</u>	<u>(19,922)</u>
Net Cash Provided by Operating Activities		<u>497,349</u>	<u>475,276</u>
Interest received		695,935	702,276
Interest paid		(112,718)	(158,181)

OTP BANK PLC.
CONSOLIDATED STATEMENT OF CASH-FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017
(in HUF mn)
[continued]

	Note	2017	2016 (Restated)
INVESTING ACTIVITIES			
Net decrease / (increase) in placement with other banks before allowance for placements losses		147,968	(62,830)
Purchase of securities available-for-sale		(955,382)	(814,918)
Proceeds from sale of securities available-for-sale		545,180	613,661
Net increase in investments in associates		(682)	(304)
Net decrease / (increase) in investments in other companies		8,762	(191)
Dividends received		3,739	3,054
Purchase of securities held-to-maturity		(1,166,466)	(877,412)
Redemption of securities held-to-maturity		970,365	692,831
Purchase of property, equipment and intangible assets		(131,028)	(71,575)
Proceeds from disposals of property, equipment and intangible assets		22,383	19,537
Net decrease in investment properties before provision for impairment		5,060	40
Net decrease / (increase) in advances for investments included in other assets		8	(3)
Net cash paid for acquisition	32.	<u>(128,588)</u>	-
Net Cash Used in Investing Activities		<u>(678,681)</u>	<u>(498,110)</u>
FINANCING ACTIVITIES			
Net (decrease) / increase in amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks		(167,670)	10,465
Cash received from issuance of securities		184,636	27,539
Cash used for redemption of issued securities		(81,216)	(120,015)
Decrease in subordinated bonds and loans		(1,430)	(157,326)
Increase in non-controlling interest		173	640
Payments to ICES holders	21.	(1,380)	(9,135)
Purchase of Treasury shares		10,342	9,881
Sales of Treasury shares		(16,349)	(15,897)
Dividends paid		<u>(53,191)</u>	<u>(46,152)</u>
Net Cash Used in Financing Activities		<u>(126,085)</u>	<u>(300,000)</u>
Net decrease in cash and cash equivalents		<u>(307,417)</u>	<u>(322,834)</u>
Cash and cash equivalents at the beginning of the period		<u>1,128,610</u>	<u>1,427,292</u>
Foreign currency translation		(20,504)	24,152
Cash and cash equivalents at the end of the period	4.	<u>800,689</u>	<u>1,128,610</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 1: ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS

1.1. General information

OTP Bank Plc. (the “Bank” or “OTP”) was established on 31 December 1990, when the previously State-owned company was transformed into a public liability company. The Bank’s registered office address is 16, Nador Street, Budapest 1051.

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

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

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

	2017	2016
Domestic and foreign private and institutional investors	98%	97%
Employees	1%	2%
Treasury shares	<u>1%</u>	<u>1%</u>
Total	<u>100%</u>	<u>100%</u>

The Bank’s Registered Capital consists of 280.000.010 pieces of ordinary shares with the nominal value of HUF 100 each, representing the same rights to the shareholders.

The Bank and its subsidiaries (“Entities of the Group“, together the “Group”) provide a full range of commercial banking services through a wide network of 1,488 branches. The Group has operations in Hungary, Bulgaria, Russia, Ukraine, Croatia, Romania, Slovakia, Serbia and Montenegro.

The number of employees at the Group:

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

1.2. Basis of Accounting

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

The Group’s presentation and functional currency is the Hungarian Forint (“HUF”).

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

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

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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

1.2. Basis of Accounting [continued]

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

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

- **Amendments to IAS 7 “Statement of Cash Flows”** - Disclosure Initiative – adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 12 “Income Taxes”** - Recognition of Deferred Tax Assets for Unrealised Losses – adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IFRS 12 due to “Improvements to IFRSs (cycle 2014-2016)”** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 7 February 2018 (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017).

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

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

- **IFRS 9 “Financial Instruments”** – adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 15 “Revenue from Contracts with Customers” and amendments to IFRS 15 “Effective date of IFRS 15”** – adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 16 “Leases”** – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 4 “Insurance Contracts”** - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 “Financial Instruments” is applied first time),
- **Amendments to IFRS 15 “Revenue from Contracts with Customers”** - Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 1 and IAS 28 due to “Improvements to IFRSs (cycle 2014-2016)”** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018).

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

Implementation of IFRS 16

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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

1.2. Basis of Accounting [continued]

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

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

Implementation of IFRS 9

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

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

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

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

Classification and measurement

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

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

Hedge accounting

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

Impairment

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

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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

1.2. Basis of Accounting [continued]

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

Impairment [continued]

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

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

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

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

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

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

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

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

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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

1.2. Basis of Accounting [continued]

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

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

Hedge accounting regarding the portfolio of financial assets and liabilities, whose principle has not been adopted by the EU, is still unregulated.

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of Presentation

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

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

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.2. Foreign currency translation

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

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

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

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

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

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

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

2.3. Principles of consolidation

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

As the ultimate parent, the Bank is preparing consolidated financial statements of the Group.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.4. Accounting for acquisitions

Business combinations are accounted for using acquisition method. Any goodwill arising on acquisition is recognized in the Consolidated Statement of Financial Position and accounted for as indicated below.

The acquisition date is the date on which the acquirer effectively obtains control over the acquiree. Before this date, it should be presented as Advance for investments within Other assets.

Goodwill, which represents the residual cost of the acquisition after obtaining the control over the acquiree in the fair value of the identifiable assets acquired and liabilities assumed is held as an intangible asset and recorded at cost less any accumulated impairment losses in the Consolidated Financial Statements.

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

Goodwill acquired in a business combination is tested for impairment annually or more frequently if events or changes in circumstances indicate. The goodwill is allocated to the cost generating units that are expected to benefit from the synergies of the combinations.

The Group calculates the fair value based on discounted cash-flow model. The 5 year period explicit cash-flow model serves as a basis for the impairment test by which the Group defines the impairment need on goodwill based on the strategic factors and financial data of its cash-generating units.

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

Negative goodwill (gain from bargain purchase), when the interest of the acquirer in the net fair value of the acquired identifiable net assets exceeds the cost of the business combination, is recognized immediately in the Consolidated Statement of Profit or Loss as other income.

2.5. Securities held-to-maturity

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

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

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

2.6. Financial assets at fair value through profit or loss

2.6.1. Securities held for trading

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Securities held for trading are measured at subsequent reporting dates at fair value. Unrealized gains and losses on held for trading securities are recognized in profit or loss and included in the Consolidated Statement of Profit or Loss for the period. The Group mainly holds these securities to obtain short-term gains consequently realised and unrealised gains and losses are recognized in the net operating income. The Group applies the FIFO¹ inventory valuation method for securities held for trading. Such securities consist of corporate shares, investment bonds, Hungarian and foreign government bonds, discounted and interest bearing treasury bills and other securities.

¹ First In First Out

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

2.6.2. Derivative financial instruments

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

Derivative financial instruments are accounted for on a trade date basis and are initially measured at fair value and at subsequent reporting dates also at fair value. Fair values are obtained from quoted market prices, discounted cash-flow models and option pricing models as appropriate. The Group adopts multi curve valuation approach for calculating the net present value of future cash-flows – based on different curves used for determining forward rates and used for discounting purposes. It shows the best estimation of such derivative deals that are collateralised as the Group has almost all of its open derivative transactions collateralised.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in profit or loss and are included in the Consolidated Statement of Profit or Loss for the period. Each derivative deal is determined as asset when fair value is positive and as liability when fair value is negative.

Certain derivative transactions, while providing effective economic hedges under the risk management policy of the Group, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses charged directly to the Consolidated Statement of Profit or Loss.

Foreign currency contracts

Foreign currency contracts are agreements to exchange specific amounts of currencies at a specified rate of exchange, at a spot date (settlement occurs two days after the trade date) or at a forward date (settlement occurs more than two days after the trade date). The notional amount of these spot contracts does not represent the actual market or credit risk associated with these contracts.

Foreign currency contracts are used by the Group for risk management and trading purposes. The risk management foreign currency contracts of the Group were used to hedge the exchange rate fluctuations of loans and deposits to credit institutions denominated in foreign currency.

Foreign exchange swaps and interest rate swaps

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

Interest rate swaps oblige two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount (the base of the interest calculation). Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps. Such notional principal amounts often are used to express the volume of these transactions but are not actually exchanged between the counterparties.

The interest rate swaps are used by the Group for risk management and trading purposes.

Cross-currency interest rate swaps

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

2.6.2. Derivative financial instruments [continued]

Equity and commodity swaps

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

Forward rate agreements (FRA)

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

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

Foreign exchange options

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

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

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

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

Changes in fair value of derivatives that are designated and qualify as cash-flow hedges and that prove to be highly effective in relation to the hedged risk are recognized in their effective portion as reserve in Comprehensive Income. Amounts deferred in Comprehensive Income are transferred to the Consolidated Statement of Profit or Loss and classified as revenue or expense in the periods during which the hedged assets and liabilities effect the Consolidated Statement of Profit or Loss for the period. The ineffective element of the hedge is charged directly to the Consolidated Statement of Profit or Loss.

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

2.8. Offsetting

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.9. Embedded derivatives

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

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

2.10. Securities available-for-sale

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Securities available-for-sale are measured at subsequent reporting dates at fair value. Unrealized gains and losses on available-for-sale financial instruments are recognized directly in Other Comprehensive Income, except for interest and foreign exchange gains/losses on monetary items, unless such available-for-sale security is part of an effective hedge. Such gains and losses will be reported when realized in Consolidated Statement of Profit or Loss for the applicable period. The Group applies the FIFO¹ inventory valuation method for securities held for trading.

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

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

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

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

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

Loans and placements with other banks are accounted at amortized cost, stated at the principal amounts outstanding (including accrued interest), net of allowance for loan or placement losses, respectively. Transaction fees and charges should adjust the carrying amount at initial recognition and be included in effective interest calculation. Loans and placements with other banks are derecognised when the contractual rights to the cash-flows expire or they are transferred. Interest and amortised cost are accounted using effective interest rate method.

When a borrower is unable to meet payments as they fall due or, in the opinion of the Management, there is an indication that a borrower may be unable to meet payments as they fall due, all unpaid interest is impaired.

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

¹ First In First Out

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

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

Allowance for loan and placement losses with other banks represent Management assessment for potential losses in relation to these activities.

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

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

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

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

The gross amount and impairment loss of the loans shall be written off in the same amount to the estimated maximum recovery amount while the net carrying value remains unchanged.

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

2.12. Sale and repurchase agreements, security lending

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

In the case of security lending transactions the Group doesn't recognize or derecognize the securities because believes that the transferor retains substantially all the risks and rewards of the ownership of the securities. Only a financial liability or financial receivable is recognized for the consideration amount.

2.13. Associates and other investments

Companies where the Bank has the ability to exercise significant influence are accounted for using the equity method. However, certain associated companies in which the Bank holds a significant interest have not been accounted for in accordance with the equity method because the effect of using the equity method to account for such companies is not material to the Consolidated Financial Statements as a whole.

Unconsolidated subsidiaries and associated companies that were not accounted for using the equity method and other investments where the Bank does not hold a significant interest are recorded according to IAS 39, when appropriate.

Gains and losses on the sale of investments are determined on the basis of the specific identification of the cost of each investment.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.14. Property and equipment, Intangible assets

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

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

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

Depreciation and amortization on Property and equipment and Intangible assets commence on the day such assets are placed into service.

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

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

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

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

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

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

2.15. Financial liabilities

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

2.16. Leases

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.16. Leases [continued]

The Group as a lessor

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

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

The Group as a lessee

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

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

2.17. Investment properties

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

2.18. Treasury shares

Treasury shares are shares which are purchased on the stock exchange and the over-the-counter market by the Bank and its subsidiaries and are presented in the Consolidated Financial Position at cost as a deduction from Consolidated Shareholders' Equity.

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

2.19. Interest income and interest expense

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

The Group recognizes interest income when assumes that the interest associated with the transaction will flow to the Group and the amount of the revenue can be reasonably measured. All interest income and expense recognized are arising from loans, placements with other banks, securities held for trading, securities available-for-sale, securities held-to-maturity and amounts due to banks, deposits from customers, liabilities from issued securities, subordinated bond and loans are presented under these lines of financial statements.

2.20. Fees and Commissions

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.21. Dividend income

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

2.22. Income tax

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

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

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

2.23. Off-balance sheet commitments and contingent liabilities

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

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

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

2.24. Share-based payment and employee benefit

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

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

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

2.25. Consolidated Statement of Cash-flows

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.26. Segment reporting

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

Based on the above, the segments identified by the Group are the business and geographical segments.

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

2.27. Comparative figures and restatement

These Consolidated Financial Statements are prepared in accordance with the same accounting policies in all respects as the Consolidated Financial Statements prepared in accordance with IFRS as adopted by the EU for the year ended 31 December 2016, which were approved by the Management board on 16 March 2017, however certain balances have been restated as described below.

According to IAS 8 the Group has restated the comparative period and the opening balances of assets, liabilities and equity by presenting a third balance sheet column in the Consolidated Statement of Financial Position. Additionally the required disclosures have been made throughout the financial statements where relevant.

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

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

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

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

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

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

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

3.1. Impairment on loans and placements

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

3.2. Valuation of instruments without direct quotations

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

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

3.3. Provisions

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

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

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

3.4. Impairment on goodwill

Goodwill acquired in a business combination is tested for impairment annually or more frequently when there is an indication that the unit might be impaired, in accordance with IAS 36 "Impairment of assets".

The Group calculates the fair value based on discounted cash-flow model. The 5 year period explicit cash-flow model serves as a basis for the impairment test by which the Group defines the impairment need on goodwill based on the strategic factors and financial data of its cash-generating units. In the calculation of the goodwill impairment, also the expectations about possible variations in the amount or timing of those future cash-flows, the time value of money, represented by the current market risk-free rate of interest and other factors are reflected.

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

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

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

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

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

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

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

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

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

Interest conditions of placements with other banks:

	2017	2016
In HUF	(0.5)% - 3.84%	0.01% - 2.86%
In foreign currency	(20.0)% - 14.9%	(15.0)% - 16.5%

	2017	2016
Average interest rates on placements with other banks	0.98%	1.25%

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

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

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

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

	2017	2016 (Restated)	2015 (Restated)
Interest rate swaps classified as held for trading	33,377	38,878	33,770
Foreign exchange swaps classified as held for trading	18,047	17,148	15,551
CCIRS and mark-to-market CCIRS ¹ classified as held for trading	16,976	34,100	84,270
Foreign exchange forward contracts classified as held for trading	4,998	94	124
Other derivative transactions classified as held for trading	<u>11,756</u>	<u>18,090</u>	<u>8,091</u>
	<u>85,154</u>	<u>108,310</u>	<u>141,806</u>
Total	<u>344,417</u>	<u>189,778</u>	<u>182,359</u>

An analysis of securities held for trading portfolio by currency (%):

	2017	2016
Denominated in HUF (%)	67.3%	74.1%
Denominated in foreign currency (%)	<u>32.7%</u>	<u>25.9%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

An analysis of government bond portfolio by currency (%):

	2017	2016
Denominated in HUF (%)	55.0%	25.8%
Denominated in foreign currency (%)	<u>45.0%</u>	<u>74.2%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

	2017	2016
Interest rates on securities held for trading	0.01% - 9.25%	0.33% - 7.75%
Average interest rates on securities held for trading	2.20%	3.46%

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

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

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

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

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

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

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

	2017	2016
Accrued interest	<u>22,745</u>	<u>15,574</u>
Provision for impairment on securities available-for-sale	<u>(370)</u>	<u>(305)</u>
Total	<u>2,174,718</u>	<u>1,527,093</u>
An analysis of securities available-for-sale by currency (%):		
	2017	2016
Denominated in HUF (%)	61.7%	68.1%
Denominated in foreign currency (%)	<u>38.3%</u>	<u>31.9%</u>
Total	<u>100.0%</u>	<u>100.0%</u>
An analysis of government bonds by currency (%):		
	2017	2016
Denominated in HUF (%)	61.4%	70.6%
Denominated in foreign currency (%)	<u>38.6%</u>	<u>29.4%</u>
Total	<u>100.0%</u>	<u>100.0%</u>
	2017	2016
Interest rates on securities available-for-sale denominated in HUF	0.01% - 7.5%	0.33% - 7.5%
Interest rates on securities available-for-sale denominated in foreign currency	(0.25)% - 18.2%	0.1% - 26.4%
	2017	2016
Average interest rates on securities available-for-sale denominated in HUF	1.56%	2.30%
Average interest rates on securities available-for-sale denominated in foreign currency	2.63%	3.25%
Interest conditions and the remaining maturities of available-for-sale financial assets can be analysed as follows:		
	2017	2016
Within one year		
With variable interest	756	597
With fixed interest	<u>615,554</u>	<u>161,781</u>
	<u>616,310</u>	<u>162,378</u>
Over one year		
With variable interest	75,651	40,340
With fixed interest	<u>1,410,229</u>	<u>1,272,378</u>
	<u>1,485,880</u>	<u>1,312,718</u>
Non-interest bearing securities	<u>50,153</u>	<u>36,728</u>
Total	<u>2,152,343</u>	<u>1,511,824</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 7: SECURITIES AVAILABLE-FOR-SALE (in HUF mn) [continued]

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

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

Certain securities are hedged against interest rate risk. See Note 41.

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

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

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

	2017	2016
In HUF	34%	38%
In foreign currency	<u>66%</u>	<u>62%</u>
Total	<u>100%</u>	<u>100%</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 8: LOANS, NET OF ALLOWANCE FOR LOAN LOSSES (in HUF mn) [continued]

Interest rates of the loan portfolio are as follows:

	2017	2016
Short-term loans denominated in HUF	0.0% - 37.5%	0.0% - 44.1%
Long-term loans denominated in HUF	0.0% - 37.5%	(0.35)% - 37.5%
Short-term loans denominated in foreign currency	(0.67)% - 59.9%	(0.7)% - 64.9%
Long-term loans denominated in foreign currency	(0.67)% - 59.0%	(0.7)% - 59.7%

	2017	2016
Average interest rates on loans denominated in HUF	7.55%	8.48%
Average interest rates on loans denominated in foreign currency	7.66%	8.35%

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

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

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

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

¹ See details in Note 2.11.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 9: ASSOCIATES AND OTHER INVESTMENTS (in HUF mn)

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

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

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

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

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 10: SECURITIES HELD-TO-MATURITY (in HUF mn) [continued]

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

	2017	2016
Within one year		
With variable interest	270	10
With fixed interest	<u>105,251</u>	<u>120,079</u>
	<u>105,521</u>	<u>120,089</u>
Over one year		
With variable interest	-	635
With fixed interest	<u>1,185,145</u>	<u>975,343</u>
	<u>1,185,145</u>	<u>975,978</u>
Total	<u>1,290,666</u>	<u>1,096,067</u>

An analysis of securities held-to-maturity by currency (%):

	2017	2016
Denominated in HUF (%)	91.8%	91.0%
Denominated in foreign currency (%)	<u>8.2%</u>	<u>9.0%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

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

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

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

OTP BANK PLC.
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NOTE 11: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn)

For the year ended 31 December 2017

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

Depreciation and Amortization	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Total
Balance as at 1 January	138,185	54,026	126,138	-	318,349
Charge for the period (without goodwill impairment)	27,081	7,400	14,507	-	48,988
Goodwill impairment	504	-	-	-	504
Foreign currency translation differences	(1,067)	(555)	(1,155)	-	(2,777)
Disposals	(38,715)	(2,725)	(13,826)	-	(55,266)
Balance as at 31 December	<u>125,988</u>	<u>58,146</u>	<u>125,664</u>	<u>=</u>	<u>309,798</u>

Carrying value

Balance as at 1 January	<u>162,031</u>	<u>143,887</u>	<u>37,147</u>	<u>12,451</u>	<u>355,516</u>
Balance as at 31 December	<u>176,069</u>	<u>168,367</u>	<u>48,921</u>	<u>20,033</u>	<u>413,390</u>

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

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

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

	Goodwill
Balance as at 1 January	104,282
Additions	-
Foreign currency translation difference	(2,802)
Impairment for the current period	(504)
Balance as at 31 December	<u>100,976</u>

Carrying value

Balance as at 1 January	<u>104,282</u>
Balance as at 31 December	<u>100,976</u>

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

For the year ended 31 December 2017 [continued]

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

List of units	HUF mn
JSC "OTP Bank" (Russia)	42,182
DSK Bank EAD	28,541
OTP banka Hrvatska d.d.	18,004
OTP Bank Romania S.A.	6,162
Monicomp Ltd.	5,732
Other ¹	355
Total	<u>100,976</u>

The Bank decided that the recoverable amount is determined based on fair value less cost of disposal. When the Bank prepares goodwill impairment tests of the subsidiaries, two methods are used based on discounted cash-flow calculation that shows the same result; however they represent different economical logics. On one hand is the free cash-flow method (FCF) that calculates the value of the subsidiaries by discounting their expected cash-flow; on the other hand the economic value added (EVA) method estimates the value of the subsidiaries from the initial invested capital and the present value of the economic profit that the companies are expected to generate in the future.

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

Present value calculation with the FCF method

The Bank calculated the expected cash-flow for the given period based on the expected after tax profit of the companies. For calculating the discount factor as risk free rates in case of OTP Bank JSC (Ukraine) the local interbank interest rate in foreign currency with a period of one year was applied, while in case of the other subsidiaries the ten-year local government bonds in foreign currency or swap yields were considered as presented in the actual macro forecasts. The Bank calculated risk premiums on the basis of information from the country risk premiums that are published on damodaran.com, which were modified with CDS spread in case of OTP Banka Slovensko a.s and Crnogorska komercijalna banka a.d., since according to the Bank's assumption the risk free interest rate includes the country-dependent risks in an implicit way.

The growth rate in the explicit period is the growth rate of the profit after tax adjusted by the interest rate of the cash and subordinated loans. The supposed growth rates for the periods of residual values reflect the long-term economic expectations in case of every country.

The values of the subsidiaries in the FCF method were then calculated as the sum of the discounted cash-flows of the explicit period, the present value of the terminal values and the initial free capital assuming an effective capital structure.

Present value calculation with the EVA method

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

Summary of the impairment test for the year ended 31 December 2017

Based on the valuations of the subsidiaries 504 million HUF goodwill impairment was needed on Group level for OTP Banka Slovensko a.s. as at 31 December 2017.

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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

For the year ended 31 December 2016

Cost	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Total
Balance as at 1 January	301,539	197,832	158,985	10,010	668,366
Acquisition	384	11	37	-	432
Additions	31,121	6,617	18,520	27,549	83,807
Foreign currency translation differences	10,328	1,686	1,832	(9)	13,837
Disposals	(43,156)	(8,233)	(16,089)	(25,099)	(92,577)
Balance as at 31 December	<u>300,216</u>	<u>197,913</u>	<u>163,285</u>	<u>12,451</u>	<u>673,865</u>

Depreciation and Amortization	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Total
Balance as at 1 January	145,730	53,451	119,715	-	318,896
Charge for the year (without goodwill impairment)	23,390	5,306	15,731	-	44,427
Foreign currency translation differences	749	555	1,632	-	2,936
Disposals	(31,702)	(5,286)	(10,953)	-	(47,941)
Change in consolidation scope	18	=	13	=	31
Balance as at 31 December	<u>138,185</u>	<u>54,026</u>	<u>126,138</u>	<u>=</u>	<u>318,349</u>

Carrying value

Balance as at 1 January	<u>155,809</u>	<u>144,381</u>	<u>39,270</u>	<u>10,010</u>	<u>349,470</u>
Balance as at 31 December	<u>162,031</u>	<u>143,887</u>	<u>37,147</u>	<u>12,451</u>	<u>355,516</u>

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

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

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

	Goodwill
Balance as at 1 January	95,994
Additions	-
Foreign currency translation difference	8,288
Impairment for the current period	=
Balance as at 31 December	<u>104,282</u>

Carrying value

Balance as at 1 January	<u>95,994</u>
Balance as at 31 December	<u>104,282</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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

For the year ended 31 December 2016 [continued]

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

List of units	HUF mn
JSC "OTP Bank" (Russia)	44,906
DSK Bank EAD	28,541
OTP banka Hrvatska d.d.	18,055
OTP Bank Romania S.A.	6,180
Monicomp Ltd.	5,732
OTP Banka Slovensko a.s.	513
Other ¹	<u>355</u>
Total	<u>104,282</u>

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

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

NOTE 12: INVESTMENT PROPERTIES (in HUF mn)

For the year ended 31 December 2017

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

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

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

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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

For the year ended 31 December 2017 [continued]

Depreciation and amortization	Investment property	Investment property subject to operating lease	Total
Balance as at 1 January	4,031	1,377	5,408
Charge for the period	518	263	781
Additions due to transfer from inventories or owner-occupied properties	18	-	18
Other increase for the period	1,157	253	1,410
Disposal due to transfer to inventories or owner-occupied properties	(107)	(30)	(137)
Other disposal for the period	(62)	-	(62)
Foreign currency translation difference	(10)	14	4
Closing balance	<u>5,545</u>	<u>1,877</u>	<u>7,422</u>

Impairment	Investment property	Investment property subject to operating lease	Total
Balance as at 1 January	8,491	1,502	9,993
Impairment for the period	54	244	298
Release of impairment for the period	(369)	-	(369)
Use of impairment	(1,789)	-	(1,789)
Foreign currency translation difference	(71)	18	(53)
Closing balance	<u>6,316</u>	<u>1,764</u>	<u>8,080</u>

Carrying values	Investment property	Investment property subject to operating lease	Total
Balance as at 1 January	<u>24,748</u>	<u>4,698</u>	<u>29,446</u>
Balance as at 31 December	<u>30,221</u>	<u>5,164</u>	<u>35,385</u>

Fair values	<u>33,553</u>	<u>6,705</u>	<u>40,258</u>
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Income and expenses	Investment property	Investment property subject to operating lease	Total
Rental income	1,554	484	2,038
Direct operating expenses of investment properties – income generating	76	28	104
Direct operating expenses of investment properties – non income generating	8	-	8

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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

For the year ended 31 December 2016

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

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

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

Depreciation and amortization	Investment property	Investment property subject to operating lease	Total
Balance as at 1 January	3,719	1,216	4,935
Charge for the period	362	165	527
Increase due to transfer from inventories or owner-occupied properties	24	-	24
Disposal due to transfer to inventories or owner-occupied properties	(5)	-	(5)
Other disposals	(43)	(7)	(50)
Foreign currency translation difference	<u>(26)</u>	<u>3</u>	<u>(23)</u>
Closing balance	<u>4,031</u>	<u>1,377</u>	<u>5,408</u>

Impairment	Investment property	Investment property subject to operating lease	Total
Balance as at 1 January	7,965	1,525	9,490
Impairment for the period	923	-	923
Release of impairment	(90)	-	(90)
Use of impairment	(223)	(29)	(252)
Foreign currency translation difference	<u>(84)</u>	<u>6</u>	<u>(78)</u>
Closing balance	<u>8,491</u>	<u>1,502</u>	<u>9,993</u>

Carrying values	Investment property	Investment property subject to operating lease	Total
Balance as at 1 January	<u>25,455</u>	<u>4,864</u>	<u>30,319</u>
Balance as at 31 December	<u>24,748</u>	<u>4,698</u>	<u>29,446</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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

For the year ended 31 December 2016 [continued]

	Investment property	Investment property subject to operating lease	Total
Fair values	<u>27,806</u>	<u>5,641</u>	<u>33,447</u>
Income and expenses	Investment property	Investment property subject to operating lease	Total
Rental income	1,792	440	2,232
Direct operating expenses of investment properties – income generating	214	6	220
Direct operating expenses of investment properties – non income generating	16	-	16

NOTE 13: OTHER ASSETS¹ (in HUF mn)

	2017	2016 (Restated)	2015 (Restated)
Inventories	60,998	53,772	46,195
Prepayments and accrued income	32,674	33,118	25,136
Receivables from card operations	29,982	16,572	7,865
Assets subject to operating lease	27,798	21,405	17,026
Trade receivables	10,710	11,369	10,891
Other advances	10,623	9,588	7,083
Receivables due from pension funds and investment funds	6,574	5,610	2,516
Giro clearing accounts	5,699	2,389	8,200
Due from Hungarian Government from interest subsidies	4,170	4,273	1,197
Receivables from investment services	3,273	4,244	6,369
Receivable from the National Asset Management	3,130	6,967	6,645
Settlement and suspense accounts	2,330	1,442	2,090
Receivables from leasing activities	2,096	1,616	1,470
Stock exchange deals	1,664	2,827	2,163
Advances for securities and investments	658	666	663
Loans sold under deferred payment scheme	137	2,276	2,410
Other receivables from Hungarian Government	115	4,292	1,233
Other	<u>23,646</u>	<u>31,514</u>	<u>27,488</u>
Subtotal	<u>226,277</u>	<u>213,940</u>	<u>176,640</u>

¹ Other assets – except income tax receivable and fair value of derivative financial instruments designated as fair value hedge – are expected to be recovered or settled no more than twelve months after the reporting period. Unrealised gains/losses on derivative financial instruments are recovering in accordance with their maturity.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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

	2017	2016 (Restated)	2015 (Restated)
Provision for impairment on other assets ¹	<u>(28,595)</u>	<u>(28,073)</u>	<u>(27,992)</u>
	<u>197,682</u>	<u>185,867</u>	<u>148,648</u>
Fair value of derivative financial instruments designated as fair value hedge	10,277	7,887	16,009
Deferred tax assets ²	29,419	52,593	73,079
Current income tax receivable	14,281	11,679	20,492
Subtotal	<u>53,977</u>	<u>72,159</u>	<u>109,580</u>
Total	<u>251,659</u>	<u>258,026</u>	<u>258,228</u>

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

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

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

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

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

	2017	2016
Within one year		
In HUF	80,188	129,739
In foreign currency	<u>115,852</u>	<u>126,361</u>
	<u>196,040</u>	<u>256,100</u>
Over one year		
In HUF	187,062	223,415
In foreign currency	<u>87,988</u>	<u>63,720</u>
	<u>275,050</u>	<u>287,135</u>
Accrued interest	<u>978</u>	<u>540</u>
Total³	<u>472,068</u>	<u>543,775</u>

¹ Provision for impairment on inventories and on real estate held-for-sale was recognized the most impairment among the Provision for impairment on other assets.

² See Note 27.

³ It contains loans lent among the frame of Funding for Growth Scheme, which are accounted as government grant regulated by IAS 20 standard. See more details in Note 45.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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

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

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

NOTE 15: DEPOSITS FROM CUSTOMERS (in HUF mn)

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

Interest rates on deposits from customers are as follows:

	2017	2016
Within one year		
In HUF	(5.0)% - 9.69%	0.0% - 9.65%
In foreign currency	(0.4)% - 30.0%	0.0% - 20.5%
Over one year		
In HUF	0.0% - 10.10%	0.0% - 9.65%
In foreign currency	0.0% - 16.0%	0.0% - 22.0%

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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

	2017	2016
Average interest rates on deposits from customers denominated in HUF	0.18%	0.43%
Average interest rates on deposits from customers denominated in foreign currency	0.80%	1.08%

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

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

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

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

Interest rates on liabilities from issued securities are as follows:

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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

Issued securities denominated in HUF as at 31 December 2017 (in HUF mn)

	Name	Date of issue	Maturity	Nominal value (in HUF mn)	Interest conditions (in % p.a.)		Hedged
1	OTP 2018/Ax	03/01/2012	09/01/2018	391	indexed	floating	hedged
2	OTP 2018/Bx	22/03/2012	22/03/2018	3,488	indexed	floating	hedged
3	OTP 2018/Cx	18/07/2012	18/07/2018	2,948	indexed	floating	hedged
4	OTP 2018/Dx	29/10/2012	26/10/2018	2,543	indexed	floating	hedged
5	OTP 2018/Ex	28/12/2012	28/12/2018	2,502	indexed	floating	hedged
6	OTP 2019/Ax	25/06/2009	01/07/2019	231	indexed	floating	hedged
7	OTP 2019/Bx	05/10/2009	14/10/2019	313	indexed	floating	hedged
8	OTP 2019/Cx	14/12/2009	20/12/2019	268	indexed	floating	hedged
9	OTP 2019/Dx	22/03/2013	21/03/2019	3,685	indexed	floating	hedged
10	OTP 2019/Ex	28/06/2013	24/06/2019	2,916	indexed	floating	hedged
11	OTP 2020/Ax	25/03/2010	30/03/2020	301	indexed	floating	hedged
12	OTP 2020/Bx	28/06/2010	09/07/2020	290	indexed	floating	hedged
13	OTP 2020/Cx	11/11/2010	05/11/2020	176	indexed	floating	hedged
14	OTP 2020/Dx	16/12/2010	18/12/2020	177	indexed	floating	hedged
15	OTP 2020/Ex	18/06/2014	22/06/2020	3,524	indexed	floating	hedged
16	OTP 2020/Fx	10/10/2014	16/10/2020	3,093	indexed	floating	hedged
17	OTP 2020/Gx	15/12/2014	21/12/2020	2,627	indexed	floating	hedged
18	OTP 2021/Ax	01/04/2011	01/04/2021	250	indexed	floating	hedged
19	OTP 2021/Bx	17/06/2011	21/06/2021	274	indexed	floating	hedged
20	OTP 2021/Cx	19/09/2011	24/09/2021	266	indexed	floating	hedged
21	OTP 2021/Dx	21/12/2011	27/12/2021	310	indexed	floating	hedged
22	OTP 2022/Ax	22/03/2012	23/03/2022	252	indexed	floating	hedged
23	OTP 2022/Bx	18/07/2012	18/07/2022	215	indexed	floating	hedged
24	OTP 2022/Cx	29/10/2012	28/10/2022	237	indexed	floating	hedged
25	OTP 2022/Dx	28/12/2012	27/12/2022	297	indexed	floating	hedged
26	OTP 2023/Ax	22/03/2013	24/03/2023	363	indexed	floating	hedged
27	OTP 2023/Bx	28/06/2013	26/06/2023	240	indexed	floating	hedged
28	OTP 2024/Ax	18/06/2014	21/06/2024	256	indexed	floating	hedged
29	OTP 2024/Bx	10/10/2014	16/10/2024	339	indexed	floating	hedged
30	OTP 2024/Cx	15/12/2014	20/12/2024	287	indexed	floating	hedged
31	OTP 2020/RF/A	12/07/2010	20/07/2020	1,975	indexed	floating	hedged
32	OTP 2020/RF/B	12/07/2010	20/07/2020	1,131	indexed	floating	hedged
33	OTP 2020/RF/C	11/11/2010	05/11/2020	2,353	indexed	floating	hedged
34	OTP 2021/RF/A	05/07/2011	13/07/2021	2,199	indexed	floating	hedged
35	OTP 2021/RF/B	20/10/2011	25/10/2021	2,324	indexed	floating	hedged
36	OTP 2021/RF/C	21/12/2011	30/12/2021	424	indexed	floating	hedged
37	OTP 2021/RF/D	21/12/2011	30/12/2021	292	indexed	floating	hedged
38	OTP 2021/RF/E	21/12/2011	30/12/2021	48	indexed	floating	hedged
39	OTP 2022/RF/A	22/03/2012	23/03/2022	1,593	indexed	floating	hedged
40	OTP 2022/RF/B	22/03/2012	23/03/2022	538	indexed	floating	hedged
41	OTP 2022/RF/C	28/06/2012	28/06/2022	146	indexed	floating	hedged
42	OTP 2022/RF/D	28/06/2012	28/06/2022	194	indexed	floating	hedged
43	OTP 2022/RF/E	29/10/2012	31/10/2022	521	indexed	floating	hedged
44	OTP 2022/RF/F	28/12/2012	28/12/2022	403	indexed	floating	hedged
45	OTP 2023/RF/A	22/03/2013	24/03/2023	553	indexed	floating	hedged
46	OJB 2019/I	17/03/2004	18/03/2019	31,517	9.48	fixed	
47	OJB 2019/II	31/05/2011	18/03/2019	1,093	9.48	fixed	
48	OJB 2020/I	19/11/2004	12/11/2020	5,503	9.0	fixed	
	Subtotal			85,866			

OTP BANK PLC.
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NOTE 16: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]

Issued securities denominated in HUF as at 31 December 2017 (in HUF mn) [continued]

	Name	Date of issue	Maturity	Nominal value (in HUF mn)	Interest conditions (in % p.a.)	Hedged
49	OJB 2020/II	31/05/2011	12/11/2020	1,487	9.0 fixed	
50	OJB 2020/III	23/02/2017	20/05/2020	32,418	0.63 floating	
51	OJB 2021/I	15/02/2017	27/10/2021	96,750	2.0 fixed	
52	OJB 2022/I	24/02/2017	24/05/2022	20,911	0.78 floating	
53	Other			<u>226</u>		
	Subtotal			<u>151,792</u>		
	Subtotal issued securities in HUF			<u>237,658</u>		
	Unamortized premium			(2,202)		
	Fair value adjustment			<u>4,657</u>		
	Total issued securities in HUF			<u>240,113</u>		

Issued securities denominated in foreign currency as at 31 December 2017 (in HUF mn)

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

¹ Other category includes promissory notes issued by OTP Banka Slovensko a.s. in the amount of HUF 203 million and by JSC "OTP Bank" (Russia) in the amount of HUF 357 million.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 16: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]

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

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

Term Note Program in the value of HUF 200 billion for the year of 2016/2017

On 5 July 2016 the Bank initiated term note program in the value of HUF 200 billion with the intention of issuing registered dematerialized bonds in public. The NBH approved on 3 August 2016 the prospectus of Term Note Program and the disclosure as at 10 August 2016. The prospectus is valid for 12 months following the disclosure. The Issuer can initiate to introduce the bonds issued under the program to the Hungarian, Slovakian, Romanian and Bulgarian Stock Exchange without any obligations.

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

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

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

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

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 18: OTHER LIABILITIES¹ (in HUF mn)

	2017	2016 (Restated)	2015 (Restated)
Provision on off-balance sheet commitments and contingent liabilities	81,710	48,166	31,685
Liabilities from investment services	52,569	72,102	39,413
Accrued expenses	39,934	39,885	33,153
Liabilities connected to Cafeteria benefits	35,028	31,194	27,811
Accounts payable	30,805	27,085	25,455
Salaries and social security payable	28,220	28,235	25,423
Liabilities from card transactions	25,213	12,837	5,804
Clearing, settlement and suspense accounts	19,030	9,269	12,065
Giro clearing accounts	12,096	7,153	11,302
Liabilities due to refunding assets	11,101	14,136	-
Advances received from customers	8,274	6,429	4,271
Liabilities related to housing loans	7,819	6,496	1,523
Liabilities due to short positions	5,221	21,552	7,453
Insurance technical reserve	3,816	-	-
Loans from government	900	716	683
Liabilities connected to loans for collection	766	814	876
Provision for expected losses due to CHF loans conversion at foreign subsidiaries	147	6,402	39,314
Dividend payable	83	73	546
Liabilities connected to leasing activities	31	18	1,583
Other	<u>40,846</u>	<u>30,876</u>	<u>24,159</u>
Subtotal	<u>403,609</u>	<u>363,438</u>	<u>292,519</u>
Accrued interest	<u>659</u>	<u>1,065</u>	<u>257</u>
	<u>404,268</u>	<u>364,503</u>	<u>292,776</u>
Fair value of derivative financial instruments designated as fair value hedge	17,199	20,002	13,723
Deferred tax liabilities ²	9,271	3,234	4,610
Current income tax payable	<u>17,674</u>	<u>16,066</u>	<u>13,684</u>
Subtotal	<u>44,144</u>	<u>39,302</u>	<u>32,017</u>
Total	<u>448,412</u>	<u>403,805</u>	<u>324,793</u>

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

² See Note 27.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 18: OTHER LIABILITIES (in HUF mn) [continued]

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

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

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

	2017	2016
Balance as at 1 January	54,568	70,999
Change due to acquisition	12,846	-
Provision for the period	57,847	33,922
Release of provision for the period	(41,890)	(49,190)
Use of provision	(1,036)	(1,045)
Foreign currency translation differences	<u>(478)</u>	<u>(118)</u>
Closing balance	<u>81,857</u>	<u>54,568</u>

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

	2017	2016
Interest rate swaps designated as fair value hedge	17,199	19,976
CCIRS and mark-to-market CCIRS designated as fair value hedge	=	<u>26</u>
Total	<u>17,199</u>	<u>20,002</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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

	2017	2016
Within one year:		
In HUF	-	-
In foreign currency	=	=
	=	=
Over one year:		
In HUF	-	-
In foreign currency	<u>75,696</u>	<u>76,946</u>
	<u>75,696</u>	<u>76,946</u>
Accrued interest	<u>332</u>	<u>512</u>
Total	<u>76,028</u>	<u>77,458</u>

Interest rates on subordinated bonds and loans are as follows:

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

Subordinated bonds and loans can be detailed as follows:

Type	Nominal value	Date of issuance	Date of maturity	Issue price	Interest conditions	Interest rate as at 31 December 2017
Subordinated bond	EUR 244.5 million	07/11/2006	Perpetual	99.375%	Three-month EURIBOR + 3%, variable after year 10 (payable quarterly)	2.671%

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 20: SHARE CAPITAL (in HUF mn)

	2017	2016
Authorized, issued and fully paid:		
Ordinary shares	<u>28,000</u>	<u>28,000</u>

NOTE 21: RETAINED EARNINGS AND RESERVES¹ (in HUF mn)

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

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

In the Consolidated Financial Statement the Group recognizes the non-monetary items at historical cost. The difference between the historical cost of the non-monetary items in forint amount and the translated foreign currencies into the presentation currency using the exchange rate at the balance sheet date, is presented in the shareholders’ equity as a translation difference. The accumulated amounts of exchange differences were HUF 161,660 million and HUF 141,156 million as at 31 December 2017 and 2016 respectively.

On 19 October 2006, the Bank sold 14.5 million Treasury shares owned by the Group through an issue of ICES. Within the transaction 10 million shares owned by OTP, and a further 4.5 million shares owned by OTP Group were sold during the underwriting period of ICES on the weighted average market price (HUF 7,080) of the Budapest Stock Exchange. The shares have been purchased by Opus Securities S.A. (“OPUS”), which issued an exchangeable bond with a total face value of EUR 514,274,000 backed by those shares. The exchangeable bonds have been sold at a 32% premium over the selling price of the shares. The EUR denominated exchangeable bonds are perpetual and the investors can exercise the conversion right between years 6 and 10. The bonds carry a fixed coupon of 3.95% during the first 10 years, and thereafter the Issuer has the right to redeem the bonds at face value. Following year 10, the bonds carry a coupon of 3 month EURIBOR +3%. OTP has a discretionary right to cancel the interest payments. The interest payable is non-cumulative.

Due to the conditions described above, ICES was accounted as an equity instrument and therefore any payment was accounted as equity distribution paid to ICES holders.

NOTE 22: TREASURY SHARES (in HUF mn)

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

¹ See more details about the Consolidated statement of Comprehensive Income on page 4.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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

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

Change in number of shares:

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

Change in carrying value:

	2017	2016
Balance as at 1 January	60,121	58,021
Additions	13,510	11,982
Disposals	<u>(10,342)</u>	<u>(9,882)</u>
Closing balance	<u>63,289</u>	<u>60,121</u>

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

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

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

	2017	2016
Provision for impairment on loan losses		
Provision for the period	355,929	419,801
Release of provision	<u>(353,136)</u>	<u>(358,545)</u>
Loan losses due to write-off and sale	<u>37,827</u>	<u>32,349</u>
	<u>40,620</u>	<u>93,605</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 24: PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES (in HUF mn)
[continued]

	2017	2016
Provision / (Release of provision) on placement losses		
Provision for the period	53	46
Release of provision	(77)	-
Losses / (Gains) on placements due to write-off and sale	<u>252</u>	<u>(178)</u>
	<u>228</u>	<u>(132)</u>
Provision for impairment on loan and placement losses	<u>40,848</u>	<u>93,473</u>

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

	2017	2016
Income from fees and commissions		
Deposit and account maintenance fees and commissions	126,280	114,404
Fees and commissions related to the issued bank cards	53,093	43,963
Fees related to cash withdrawal	31,189	27,920
Fees and commissions related to lending ¹	26,168	20,715
Fees and commissions related to security trading	25,005	20,329
Fees and commissions related to fund management	22,517	18,865
Insurance fee income	11,391	5,913
Other	<u>19,963</u>	<u>20,126</u>
Total	<u>315,606</u>	<u>272,235</u>
Expense from fees and commissions		
Fees and commissions related to issued bank cards	17,119	15,093
Interchange fees	9,114	7,421
Fees and commissions paid on loans	6,951	9,641
Fees and commissions related to deposits	4,603	3,449
Insurance fees	3,116	177
Fees and commissions related to security trading	2,609	1,736
Cash withdrawal transaction fees	1,557	1,430
Fees and commissions related to collection of loans	869	959
Postal fees	860	889
Money market transaction fees and commissions	383	128
Other	<u>7,232</u>	<u>8,321</u>
Total	<u>54,413</u>	<u>49,244</u>
Net profit from fees and commissions	<u>261,193</u>	<u>222,991</u>

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 26: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF mn)

Other operating income	2017	2016
Negative goodwill due to acquisition	32,221	-
Gains on sale of receivables	6,899	7,743
Gains on transactions related to property activities	2,093	1,923
Gains on transactions related to insurance activity	409	-
Fine refund by Hungarian Competition Authority	-	3,960
Other income from non-financial activities	<u>23,847</u>	<u>6,002</u>
Total	<u>65,469</u>	<u>19,628</u>
Other operating expenses	2017	2016
Provision for off-balance sheet commitments and contingent liabilities	16,011	18,034
Provision for impairment on other assets	7,796	2,249
Financial support for sport association and organization of public utility	7,331	8,731
Non-repayable assets contributed	4,165	4,400
Provision / (Release of provision) for assets subject to operating lease	417	(31)
Provision for impairment on investments ¹	184	687
Fine imposed by Competition Authority	18	67
Expenses from losses due to foreign currency loan conversion at foreign subsidiaries	-	27,438
Incomes from regulations related to customer loans	-	(5)
Release of provision for expected losses due to foreign currency loan conversion at foreign subsidiaries	(54)	(33,302)
(Release of provision) / Provision on investment properties	(71)	833
Other	<u>15,443</u>	<u>7,360</u>
Total	<u>51,240</u>	<u>36,461</u>
Other administrative expenses	2017	2016
Personnel expenses		
Wages	160,262	138,785
Taxes related to personnel expenses	37,645	37,005
Other personnel expenses	<u>15,979</u>	<u>15,652</u>
Subtotal	<u>213,886</u>	<u>191,442</u>
Depreciation and amortization²	<u>49,492</u>	<u>44,427</u>

¹ See details in Note 9.

² See details in Note 11.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 26: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF mn) [continued]

	2017	2016
Other administrative expenses		
Taxes, other than income tax ¹	80,550	92,380
Services	56,769	45,551
Administration expenses	34,108	29,785
Professional fees	28,122	22,823
Advertising	18,299	13,809
Rental fees	<u>18,224</u>	<u>15,881</u>
Subtotal	<u>236,072</u>	<u>220,229</u>
Total	<u>499,450</u>	<u>456,098</u>

NOTE 27: INCOME TAXES (in HUF mn)

The Group is presently liable for income tax at rates between 9% and 35% of taxable income.

Deferred tax is calculated at the income tax rate of 9% in Hungary and Montenegro, 10% in Bulgaria, 12.5% in Cyprus, 15% in Serbia, 16% in Romania, 18% in Ukraine and Croatia, 20% in Russia, 21% in Slovakia, 25% in the Netherlands and 35% in Malta.

The breakdown of the income tax expense is:

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

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

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

¹ Special tax of financial institutions was paid by the Group in the amount of HUF 9,509 million and HUF 15,400 million for the year 2017 and 2016 respectively, recognized as an expense thus decreased the corporate tax base. In the year ended 31 December 2017 financial transaction duty was paid by the Bank in the amount of HUF 50,449 million.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 27: INCOME TAXES (in HUF mn) [continued]

A breakdown of the deferred tax assets are as follows:

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

A breakdown of the deferred tax liabilities are as follows:

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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

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

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

Income tax adjustments due to permanent differences are as follows:

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

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn)

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

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

28.1. Credit risk

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

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

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan types and by DPD categories

Classification into DPD categories

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

Exposures with small amounts are subject to **collective valuation** method, which is a simplified assessment. The exposures subject to collective valuation method are classified on the basis of past due days into three valuation groups, so the loan exposure is presented below based on these three categories: 0-90 days past due; 91-360 days past due; above 360 days past due.

The Group intends – where a great number of items and sufficient long term historical data is available – to apply models on statistical bases. The impairment is calculated according to the possibility of listing the loan into default categories examined on the basis of objective valuation criteria (delay of payment, change of exchange) and the expected recovery from the collecting. If the loss of the exposure can't be modelled reliably, the impairment is determined by expert keys.

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

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

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan types and by DPD categories [continued]

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

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

As at 31 December 2017

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

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan types and by DPD categories [continued]

As at 31 December 2016

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

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

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

OTP BANK PLC.
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NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1. Credit risk [continued]

28.1.1. Analysis by loan types and by DPD categories [continued]

Not impaired loan portfolio

That part of loan portfolio, which are neither past due nor impaired, doesn't indicate any lowering of credit quality. The loan portfolio analysis of the gross values of the loans that are not impaired, not past due and past due is as follows:

As at 31 December 2017

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

As at 31 December 2016

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

Loans not past due or past due, but not impaired cover only balance sheet items.

The ratio of the gross value of the loans neither past due nor impaired compared to the whole portfolio increased from 74.5% to 80.4% as at 31 December 2017 comparing to the end of the previous year. The ratio of the mortgage loans compared to the portfolio of loans neither past due nor impaired decreased slightly in the year ended 31 December 2017, and in the same slight ratio, but increased the ratio of the loans to medium and large corporates and municipal loans.

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1. Credit risk [continued]

28.1.1. Analysis by loan types and by DPD categories [continued]

Loans individually assessed for provision

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

An analysis of financial assets that are individually determined to be impaired, the factors taken into consideration at the assessment, the provision for impairment for them and the collaterals considered as at 31 December 2017 and 2016 is as follows:

As at 31 December 2017

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

As at 31 December 2016

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

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

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan types and by DPD categories [continued]

Loan portfolio by countries

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

Country	2017		2016	
	Carrying amount of gross loan and placement with other banks portfolio	Allowance	Carrying amount of gross loan and placement with other banks portfolio	Allowance
Hungary	2,988,753	177,834	2,885,068	270,618
Bulgaria	1,280,915	123,673	1,221,790	144,240
Croatia	1,252,800	64,521	537,287	50,694
Russia	588,153	115,064	601,571	116,850
Romania	536,597	42,197	539,665	37,666
Slovakia	382,567	31,563	382,351	30,799
Serbia	355,214	23,248	132,045	26,418
Ukraine	294,181	95,493	394,273	190,378
Montenegro	146,724	43,453	147,313	54,360
United Kingdom	64,151	873	54,405	1,131
Germany	54,110	108	31,237	125
Cyprus	41,577	14,117	30,935	14,973
France	30,677	19	543	17
Austria	29,967	5,251	11,148	4
Czech Republic	13,167	14	3,992	8
Belgium	12,494	55	4,773	40
Italy	10,445	33	8,237	15
United States of America	10,157	22	13,931	32
Norway	8,194	21	2,575	1
Turkey	6,235	9	9,713	8
Spain	5,323	1	132	3
The Netherlands	4,968	143	1,984	97
Switzerland	4,522	2	1,919	5
Israel	4,453	1	13	1
Poland	2,553	21	3,089	13
Bosnia and Herzegovina	1,307	-	899	756
Luxembourg	697	-	27	-
Japan	623	-	232	-
Greece	455	53	257	30
Ireland	401	67	611	68
Sweden	371	15	427	10
Canada	250	807	1,856	-
Australia	155	-	6,111	-
Kazakhstan	130	57	178	72
Denmark	113	1	1,973	-
Egypt	88	6	87	6
Iceland	47	34	41	28
United Arab Emirates	23	16	205	22
Latvia	5	14	45	19
Seychelles	-	-	4,786	4,786
Other ¹	55,158	57	516	75
Total²	8,188,720	738,863	7,038,240	944,368

¹ Other category in the year 2017 includes e.g.: Slovenia, Iran, Pakistan, Macedonia, Republic of South-Africa, Finland, Armenia, Lithuania, Hong Kong, Moldova, Tunisia, Jordan, Syria, Esthonia, Portugal, Brazil, India, Morocco, South-Korea.

² Without the amount of bill of exchange and with accrued interest receivable.

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan types and by DPD categories [continued]

Loan portfolio by countries [continued]

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

28.1.2. Collateral

The values of collateral held by the Group by type are as follows (**total collateral**). The collateral covers loans as well as off-balance sheet exposures.

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

The values of collateral held by the Group by type are as follows (**to the extent of the exposures**). The collaterals cover loans as well as off-balance sheet exposures.

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

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

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

28.1. Credit risk [continued]

28.1.3. Restructured loans

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

Restructured portfolio definition

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

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

Hungarian FX mortgage loans in the fixed exchange rate scheme are not included.

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

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

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

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

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

¹ They include project and syndicated loans.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1. Credit risk [continued]

28.1.4. Financial instruments by rating categories¹

Securities held for trading as at 31 December 2017

	Aaa	A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2	Ba3
Government bonds	1,025	-	4,719	-	-	32,621	64,313	162	10,732	-
Interest bearing treasury bills	-	-	-	-	-	-	93,806	-	-	-
Shares and investment bonds	-	76	24	26	24	17	26	-	26	-
Discounted Treasury bills	-	-	-	-	-	-	1,169	-	-	-
Other securities	-	-	-	-	-	-	19,452	4,724	8,086	-
Other non-interest bearing securities	=	=	=	=	=	=	286	=	=	=
Total	<u>1,025</u>	<u>76</u>	<u>4,743</u>	<u>26</u>	<u>24</u>	<u>32,638</u>	<u>179,052</u>	<u>4,886</u>	<u>18,844</u>	<u>-</u>
Accrued interest										
Total										

Securities available-for-sale as at 31 December 2017

	A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2	Ba3
Government bonds	-	31,595	5,937	15,811	126,739	1,243,319	56,439	157,934	48,633
Discounted Treasury bills	-	-	-	-	-	169,922	-	53,316	-
Corporate bonds	-	-	-	-	1,404	32,655	8,553	8,085	6,553
Other securities	-	-	-	-	-	-	-	-	-
Other non-interest bearing securities	3,317	=	=	=	=	948	=	=	=
Total	<u>3,317</u>	<u>31,595</u>	<u>5,937</u>	<u>15,811</u>	<u>128,143</u>	<u>1,446,844</u>	<u>64,992</u>	<u>219,335</u>	<u>55,186</u>
Accrued interest									
Total									

¹ Moody's ratings

OTP BANK PLC.
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NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1. Credit risk [continued]

28.1.4. Financial instruments by rating categories¹ [continued]

Securities held-to-maturity as at 31 December 2017

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

¹ Moody's ratings

OTP BANK PLC.
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NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.2. Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Group applies a 'Value-at-Risk' (VaR) methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Management Board sets limits on the value of risk that may be accepted, which is monitored on a daily basis. (Analysis of liquidity risk, foreign currency risk and interest rate risk is detailed in Notes 36, 37 and 38, respectively.)

28.2.1. Market Risk sensitivity analysis

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

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

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

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

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

Historical VaR (99%, one-day) by risk type	Average	
	2017	2016
Foreign exchange	300	237
Interest rate	191	724
Equity instruments	10	2
Diversification	=	(213)
Total VaR exposure	<u>501</u>	<u>750</u>

The table above shows the VaR figures by asset classes. Since processes driving the value of the major asset classes are not independent (for example the depreciation of HUF against the EUR mostly coincide with the increase of the yields of Hungarian Government Bonds), a diversification impact emerges, so the overall VaR is less than the sum of the VaR of each individual asset class.

While VaR captures the Group's daily exposure to currency and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in interest or foreign currency rates over a year. The longer time frame of sensitivity analysis complements VaR and helps the Group to assess its market risk exposures. Details of sensitivity analysis for foreign currency risk are set out in Note 28.2.2., for interest rate risk in Note 28.2.3., and for equity price sensitivity analysis in Note 28.2.4.

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

28.2. Market risk [continued]

28.2.2. Foreign currency sensitivity analysis

The following table details the Group's sensitivity to an increase and decrease in the HUF exchange rate against the EUR and USD, over a 3 months period. Monte Carlo simulation is used when reporting foreign currency risk internally to key management personnel and represents Management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items as strategic open positions related to foreign activities.

The strategic open position related to the foreign operations was short and amounted to EUR 310 million (kept to hedge the currency risk of the expected FX-denominated net earnings of the main foreign subsidiaries) as at 31 December 2017. High portion of strategic positions is considered as effective hedge of the net investment in foreign subsidiaries – net investment hedge is applied at a Group level -, and so FX risk affects the Group's Comprehensive Income and not its earnings.

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

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

Notes:

- (1) The short term loss on the strategic open position is compensated by the long-term exchange rate gain on the foreign operations.
- (2) Monte Carlo simulation is based on the empirical distribution of the historical exchange rate movements between 2002 and 2017.

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

28.2.3. Interest rate sensitivity analysis

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

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

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

28.2 Market risk [continued]

28.2.3. Interest rate sensitivity analysis [continued]

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

- (1) HUF base rate stays unchanged and BUBOR decreases gradually to 0.0% (probable scenario)
- (2) BUBOR decreases gradually by 50 bps over the next year and the base rate of NBH decreases to the level of BUBOR3M at the same time (alternative scenario)

The net interest income in a one year period after 1 January 2018 would be decreased by HUF 191 million (probable scenario) and HUF 5,028 million (alternative scenario) as a result of these simulation. The same simulation indicated HUF 924 million (probable scenario) and HUF 3,416 million (alternative scenario) decrease in the Net interest income in a one year period after 31 December 2016.

This effect is counterbalanced by capital gains HUF 306 million (or probable scenario), HUF 3,735 million (for alternative scenario) as at 31 December 2017 and (HUF 291 million for probable scenario, HUF 648 million for alternative scenario) as at 31 December 2016 on the government bond portfolio held for hedging (economic).

Furthermore, the effects of an instant 10bps parallel shift of the HUF, EUR and USD yield-curves on net interest income over a one-year period and on the market value of the hedge government bond portfolio booked against capital was analysed. The results can be summarized as follows (in HUF million):

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

28.2.4. Equity price sensitivity analysis

The following table shows the effect of the equity price sensitivity. The Group uses VaR calculation with 1 day holding period and a 99% confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. The daily loss will not exceed the reported VaR number with 99% of probability.

The stress test assumes the largest price movement of the last year and calculates with it as the adverse direction. These scenarios show the loss of the portfolio when all prices change with the maximum amount of the last year.

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

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

28.3. Capital management

Capital management

The primary objective of the capital management of the Group is to ensure the prudent operation, the entire compliance with the prescriptions of the regulator for a persistent business operation and maximising the shareholder value, accompanied by an optimal financing structure.

The capital management of the Group members includes the management and evaluation of the shareholders' equity available for hedging risks, other types of funds to be recorded in the equity and all material risks to be covered by the capital.

The basis of the capital management of the Group members in the short run is the continuous monitoring of their capital position, in the long run the strategic and the business planning, which includes the monitoring and forecast of the capital position.

The Group members maintain the capital adequacy required by the regulatory bodies and the planned risk taking mainly by means of ensuring and developing their profitability. In case the planned risk level of a Group member exceeded its Core and the previously raised Supplementary capital, it ensures the prudent operation by occasional measures. A further tool in the capital management of the Bank is the dividend policy, and the transactions performed with the treasury shares.

Capital adequacy

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

The capital adequacy of the Group is supervised based on the financial statements data prepared in accordance with IFRS applying the current directives, rulings and indicators from 1 January 2014.

The Group has entirely complied with the regulatory capital requirements in year 2017 as well as in year 2016.

The Group uses the standard method for determining the regulatory capital requirements of the credit risk and market risk, and parallel to that, the base indicator method and the advanced method (AMA) in case of the operational risk.

For international comparison purposes, the Group calculated the Regulatory capital based on IFRS data as adopted by the EU, and the consolidated Capital adequacy ratio based on this in accordance with the regulations of Basel III. The Capital adequacy ratio of the Group (IFRS) was 14.6%, the Regulatory capital was HUF 1,228,628 million and the Total regulatory capital requirement was HUF 671,194 million as at 31 December 2017. The same ratios calculated as at 31 December 2016 were the following: 18.2%, HUF 1,228,074 million and HUF 538,437 million.

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

28.3. Capital management [continued]

Capital adequacy [continued]

Calculation on IFRS basis	2017	2016
<i>Core capital (Tier 1) =</i>		
<i>Common Equity Tier 1 (CET 1)</i>	1,062,701	1,060,338
Issued capital	28,000	28,000
Reserves	1,383,726	1,388,187
Fair value corrections	59,936	44,265
Other capital components	(142,860)	(126,107)
Non-controlling interests	940	598
Treasury shares	(63,289)	(60,121)
Goodwill and other intangible assets	(178,640)	(164,343)
Other adjustments	(25,112)	(50,141)
Additional Tier 1 (AT1)	-	-
<i>Supplementary capital (Tier 2)</i>	165,927	167,736
Subordinated bonds and loans	75,695	77,458
Other issued capital components	89,935	89,935
Components recognized in T2 capital issued by subsidiaries	297	343
Regulatory capital¹	<u>1,228,628</u>	<u>1,228,074</u>
Credit risk capital requirement	543,645	427,571
Market risk capital requirement	41,000	36,455
Operational risk capital requirement	<u>86,549</u>	<u>74,411</u>
Total requirement regulatory capital	<u>671,194</u>	<u>538,437</u>
Surplus capital	<u>557,434</u>	<u>689,637</u>
CET 1 ratio	12.7%	15.8%
Tier 1 ratio	12.7%	15.8%
Capital adequacy ratio	<u>14.6%</u>	<u>18.2%</u>

Basel III

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

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

¹ The consolidated regulatory capital of the Group contains the audited profit for year 2016 decreased by the paid dividend while in case of the year 2017 doesn't contain the result decreased by the payable dividend in accordance with 575/2013 EU regulation.

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

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

Contingent liabilities

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

Legal disputes

At the balance sheet date the Group was involved in various claims and legal proceedings of a nature considered normal to its business. The level of these claims and legal proceedings corresponds to the level of claims and legal proceedings in previous years.

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

The Group believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash-flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation. Provisions due to legal disputes were HUF 24,988 million and HUF 15,067 million as at 31 December 2017 and 2016, respectively. (See Note 18.)

Commitments to extend credit, guarantees and letters of credit

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

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

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

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

OTP BANK PLC.
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NOTE 29: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS
(in HUF mn) [continued]

Guarantees, payment undertakings arising from banking activities

Payment undertaking is a promise by the Group to assume responsibility for the debt obligation of a borrower if that borrower defaults until a determined amount, until a determined date, in case of fulfilling conditions, without checking the underlying transactions. The guarantee's liability is joint and primary with the principal, in case of payment undertaking, while the Group assumes the obligation derived from guarantee independently by the conditions established by the Group.

A guarantee is most typically required when the ability of the primary obligor or principal to perform its obligations under a contract is in question, or when there is some public or private interest which requires protection from the consequences of the principal's default or delinquency. A contract of guarantee is subject to the statute of frauds (or its equivalent local laws) and is only enforceable if recorded in writing and signed by the surety and the principal.

If the surety is required to pay or perform due to the principal's failure to do so, the law will usually give the surety a right of subrogation, allowing the surety to use the surety's contractual rights to recover the cost of making payment or performing on the principal's behalf, even in the absence of an express agreement to that effect between the surety and the principal.

Derivatives

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

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

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

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

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

During implementation of the Remuneration Policy of the Group appeared that in case of certain foreign subsidiaries it is not possible to ensure the originally determined share-based payment because of legal reasons – incompatible with relevant EU-directives –, therefore a decision was made to cancel the share-based payment in affected countries.

The quantity of usable shares for individuals calculated for settlement of share-based payment shall be determined as the ratio of the amount of share-based payment and share price determined by Supervisory Board¹

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

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

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

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

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

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

¹ Until the end of 2014 Board of Directors

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NOTE 30: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn) [continued]

Share purchasing at a discounted price

Year	Exercise price	Maximum earnings	Exercise price	Maximum earnings								
	for the year 2010		for the year 2011		for the year 2012		for the year 2013		for the year 2014			
	(HUF per share)											
2011	3,946	2,500	-	-	-	-	-	-	-	-	-	-
2012	3,946	3,000	1,370	3,000	-	-	-	-	-	-	-	-
2013	4,446	3,500	1,870	3,000	2,886	3,000	-	-	-	-	-	-
2014	4,946	3,500	1,870	4,000	2,886	3,000	2,522	2,500	-	-	-	-
2015	-	-	1,870	4,000	2,886	3,000	2,522	3,000	3,930	2,500	-	-
2016	-	-	-	-	2,886	3,500	2,522	3,500	3,930	3,000	4,892	-
2017	-	-	-	-	-	-	2,522	3,500	3,930	3,000	4,892	-
2018	-	-	-	-	-	-	-	-	3,930	3,000	4,892	-
2019	-	-	-	-	-	-	-	-	-	-	4,892	-
2020	-	-	-	-	-	-	-	-	-	-	-	-

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NOTE 30: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn) [continued]

Based on parameters accepted by Board of Directors relating to the year **2010** effective pieces are follows as at 31 December 2017:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2017	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2011	-	340,950	11,622	5,731	329,328
Share purchasing period started in 2012	-	735,722	714,791	4,593	20,931
Share purchasing period started in 2013	-	419,479	31,789	4,808	387,690
Share purchasing period started in 2014	-	497,451	495,720	5,838	1,731

Based on parameters accepted by Board of Directors relating to the year **2011** effective pieces are follows as at 31 December 2017:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2017	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2012	-	471,240	464,753	3,758	6,487
Share purchasing period started in 2013	-	1,267,173	1,256,529	4,886	10,644
Share purchasing period started in 2014	-	609,137	609,137	4,799	-
Share purchasing period started in 2015	-	608,118	608,118	5,621	-

Based on parameters accepted by Board of Directors relating to the year **2012** effective pieces are follows as at 31 December 2017:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2017	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2013	-	450,861	445,671	4,413	5,190
Share purchasing period started in 2014	-	1,156,631	1,151,890	4,982	4,741
Share purchasing period started in 2015	-	555,845	555,845	5,658	-
Share purchasing period started in 2016	-	581,377	581,377	6,575	-

Based on parameters accepted by Board of Directors relating to the year **2013** effective pieces are follows as at 31 December 2017:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2017	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2014	-	406,044	404,263	4,369	1,781
Share purchasing period started in 2015	-	804,469	804,469	4,918	-
Share purchasing period started in 2016	-	393,750	392,946	6,775	-
Share purchasing period started in 2017	30,033	483,987	453,954	9,276	-

Based on parameters accepted by Board of Directors relating to the year **2014** effective pieces are follows as at 31 December 2017:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2017	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2015	-	176,459	176,459	5,828	-
Share purchasing period started in 2016	-	360,425	359,524	7,011	901
Share purchasing period started in 2017	11,137	189,778	178,641	9,243	-
Share purchasing period starting in 2018	237,013	-	-	-	-

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NOTE 30: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn) [continued]

Based on parameters accepted by Supervisory Board relating to the year **2015** effective pieces are follows as at 31 December 2017:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2017	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2016	-	152,247	152,247	7,373	-
Remuneration exchanged to share provided in 2016	-	10,947	10,947	6,509	-
Share purchasing period started in 2017	26,065	299,758	273,693	9,260	-
Remuneration exchanged to share provided in 2017	-	20,176	20,176	9,257	-
Share purchasing period starting in 2018	166,321	-	-	-	-
Remuneration exchanged to share applying in 2018	9,543	-	-	-	-
Share purchasing period starting in 2019	204,585	-	-	-	-
Remuneration exchanged to share applying in 2019	10,671	-	-	-	-

Based on parameters accepted by Supervisory Board relating to the year **2016** effective pieces are follows as at 31 December 2017:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2017	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2017	-	147,984	147,984	9,544	-
Remuneration exchanged to share provided in 2017	-	4,288	4,288	9,194	-
Share purchasing period starting in 2018	312,328	-	-	-	-
Remuneration exchanged to share applying in 2018	8,296	-	-	-	-
Share purchasing period starting in 2019	163,390	-	-	-	-
Remuneration exchanged to share applying in 2019	4,148	-	-	-	-
Share purchasing period starting in 2020	172,356	-	-	-	-
Remuneration exchanged to share applying in 2020	4,567	-	-	-	-

Effective pieces relating to the periods starting in 2016-2020 settled during valuation of performance of year 2013-2016, can be modified based on risk assessment and personal changes.

In connection with shares given as a part of payments detailed in the *Direction of Chief Executive about the Remuneration of Work in OTP Bank* and the share-based compensation for Board of Directors detailed in 8/2013 resolution of Annual General Meeting and connecting compensation based on performance assessment accounted as equity-settled share based transactions, HUF 3,597 million and HUF 3,530 million was recognized as expense as at 31 December 2017 and 2016 respectively.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 31: RELATED PARTY TRANSACTIONS (in HUF mn)

The compensation of key management personnel, such as the members of the Board of Directors, members of the Supervisory Board, key employees of the Bank and its major subsidiaries involved in the decision-making process in accordance with the compensation categories defined in IAS 24 Related Party Disclosures, is summarised below:

Compensations	2017	2016
Short-term employee benefits	8,323	9,207
Share-based payment	2,520	2,330
Other long-term employee benefits	384	497
Termination benefits	29	26
Post-employment benefits	<u>12</u>	-
Total	<u>11,268</u>	<u>12,060</u>

	2017	2016
Loans provided to companies owned by the Management (normal course of business)	56,508	49,383
Commitments to extend credit and guarantees	38,652	39,660
Credit lines of the members of Board of Directors and the Supervisory Board and their close family members and Treasury credit lines of the members of Board of Directors and their close family members (at normal market conditions)	3,743	326

Types of transactions	2017		2016	
	Non-consolidated subsidiaries	Associated companies	Non-consolidated subsidiaries	Associated companies
Loans provided	4,484	1,334	2,196	2,174
Client deposits	5,191	321	1,552	106
Net interest income on loan provided	132	111	20	80
Net fee incomes	44	-	39	-

The members of the Board of Directors, members of the Supervisory Board, chief executives and their close family members owned credit line "A" in the amount of HUF 201,6 million and HUF 173,9 million as at 31 December 2017 and 2016 respectively.

An analysis of credit limit related to MasterCard Gold is as follows:

	2017	2016
Members of Board of Directors and their close family members	29	30
Executives	5	-
Members of Supervisory Board	-	2

An analysis of credit limit related to Visa Card is as follows:

	2017	2016
Members of Board of Directors and their close family members	31	26

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NOTE 31: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]

Member of Board of Directors and its family member owned AMEX Blue credit card loan in the amount of HUF 0.6 million and HUF 1.2 million as at 31 December 2017 and 2016, respectively.

Executives owned AMEX Gold credit card loan in the amount of HUF 12 million and HUF 3.5 million as at 31 December 2017 and 2016, respectively, while members of the Board of Directors and their close family members owned AMEX Gold credit card loan in the amount of HUF 2.8 million and HUF 5.9 million as at 31 December 2017 and 2016, respectively.

The members of the Board of Directors, members of the Supervisory Board, executives and their close family members owned AMEX Platinum credit card loan in the amount of HUF 56.8 million and HUF 46.8 million, respectively as at 31 December 2017 and 2016, respectively.

Executives of the Bank owed Lombard loans in the amount of HUF 29,300 million and HUF 24.5 million as at 31 December 2017 and 2016, respectively and personal loans in the amount of HUF 5 million and HUF 10 million as at 31 December 2017 and 2016.

An analysis of payment to executives of the Group related to their activity in Board of Directors and Supervisory Board is as follows:

	2017	2016
Members of Board of Directors	2,121	1,935
Members of Supervisory Board	<u>204</u>	<u>168</u>
Total	<u>2,325</u>	<u>2,103</u>

In the normal course of business, the Bank enters into other transactions with its unconsolidated subsidiaries of the Group, the amounts and volumes of which are not significant to these consolidated financial statements taken as a whole.

NOTE 32: ACQUISITION (in HUF mn)

a) Purchase and consolidation of subsidiaries

Based on the acquisition agreement on purchasing 100% shareholding of Splitska banka d.d., member of Société Générale Group signed on 20 December 2016 between OTP banka Hrvatska, the Croatian subsidiary of OTP Bank and Société Générale Group, on 2 May 2017 the financial closure of the transaction has been completed and Splitska banka was consolidated.

OTP banka Srbija a.d. Novi Sad signed an acquisition agreement on purchasing 100% shareholding held in the Serbian Vojvodjanska banka a.d. („VOBAN”) and NBG Leasing d.o.o. and certain other Serbian exposures held by the Group of the National Bank of Greece S.A. on 4 August 2017. The financial closure of the transaction has been completed on 1 December 2017 and VOBAN and NBG Leasing d.o.o. were consolidated.

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NOTE 32: ACQUISITION (in HUF mn) [continued]

a) Purchase and consolidation of subsidiaries [continued]

The fair value of the assets and liabilities acquired, and the related negative goodwill (gain from bargain purchase, which was reasoned by the market situation of the banking sector in the relevant countries) is as follows:

	VOBAN and NBG Leasing d.o.o.	Splitska banka group
Cash amounts and due from banks	(25,942)	(16,896)
Placements with other banks, net of allowance for placement losses and balances with the National Banks	(42,707)	(204,139)
Financial assets at fair value through profit or loss	(132)	(146)
Securities available-for-sale	(42,620)	(177,587)
Loans, net of allowance for loan losses	(208,240)	(668,732)
Associates and other investments	(282)	(10,002)
Securities held-to-maturity	-	-
Property and equipment	(18,134)	(9,613)
Intangible assets	(1,746)	(1,436)
Other assets	(4,615)	(22,918)
Amounts due to banks, the Hungarian Government, deposits from the National Banks	11,372	84,591
Deposits from customers	270,424	840,352
Liabilities from issued securities	-	-
Financial liabilities at fair value through profit or loss	32	439
Other liabilities	5,812	39,218
Subordinated bonds and loans	-	-
Net assets	<u>(56,778)</u>	<u>(146,869)</u>
Non-controlling interest	-	-
Negative goodwill	<u>17,761</u>	<u>14,460</u>
Cash consideration	<u>(39,017)</u>	<u>(132,409)</u>

b) Analysis of net outflow of cash in respect of purchase of subsidiaries

	1 December 2017	30 April 2017
Cash consideration	(39,017)	(132,409)
Cash acquired	<u>25,942</u>	<u>16,896</u>
Net cash outflow	<u>(13,075)</u>	<u>(115,513)</u>

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NOTE 33: SIGNIFICANT SUBSIDIARIES AND ASSOCIATES (in HUF mn)

Investments in companies in which the Bank has a controlling interest are detailed below. They are fully consolidated companies and incorporated in Hungary unless otherwise stated. The Bank considers the subsidiaries as cash generating units.

Significant subsidiaries

<u>Name</u>	<u>Ownership (Direct and Indirect)</u>		<u>Activity</u>
	2017	2016	
DSK Bank EAD (Bulgaria)	100.00%	100.00%	commercial banking services
OTP Bank JSC (Ukraine)	100.00%	100.00%	commercial banking services
JSC "OTP Bank" (Russia)	97.90%	97.88%	commercial banking services
OTP banka Hrvatska d.d. (Croatia)	100.00%	100.00%	commercial banking services
Splitska banka d.d. (Croatia)	100.00%	-	commercial banking services
OTP Bank Romania S.A. (Romania)	100.00%	100.00%	commercial banking services
OTP banka Srbija a.d. (Serbia)	98.90%	97.92%	commercial banking services
Vojvodjanska banka a.d. Novi Sad (Serbia)	100.00%	-	commercial banking services
OTP Banka Slovensko a. s. (Slovakia)	99.38%	99.26%	commercial banking services
OTP Financing Malta Company Ltd. (Malta)	100.00%	100.00%	refinancing activities
OTP Factoring Ltd.	100.00%	100.00%	work-out
OTP Mortgage Bank Ltd.	100.00%	100.00%	mortgage lending
OTP Real Estate Ltd.	100.00%	100.00%	real estate management and development
Merkantil Bank Ltd.	100.00%	100.00%	finance lease
Merkantil Car Ltd.	100.00%	100.00%	finance lease
OTP Building Society Ltd.	100.00%	100.00%	housing savings and loan
OTP Fund Management Ltd.	100.00%	100.00%	fund management
R.E. Four d.o.o. (Serbia)	100.00%	100.00%	real estate management
Crnogorska komercijalna banka a.d. (Montenegro)	100.00%	100.00%	commercial banking services
OTP Financing Netherlands B.V. (the Netherlands)	100.00%	100.00%	refinancing activities
OTP Holding Ltd. (Cyprus)	100.00%	100.00%	refinancing activities
OTP Financing Cyprus Ltd. (Cyprus)	100.00%	100.00%	refinancing activities
Bank Center No. 1. Ltd.	100.00%	100.00%	real estate lease
Inga Kettő Ltd.	100.00%	100.00%	property management
OTP Funds Servicing and Consulting Ltd.	100.00%	100.00%	fund services
OTP Real Estate Leasing Ltd. (previously OTP Flat Lease Ltd.)	100.00%	100.00%	real estate leasing
OTP Life Annuity Ltd.	100.00%	100.00%	life annuity services

Significant associates and joint ventures¹

Most significant indicators of associates and joint ventures which are accounted for using equity method (Szallas.hu and D-ÉG Thermoset Ltd.) or accounted on cost (Company for Cash Services Ltd.) is as follows:

¹ Based on unaudited financial statements.

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NOTE 33: SIGNIFICANT SUBSIDIARIES AND ASSOCIATES (in HUF mn) [continued]

Significant associates and joint ventures¹ [continued]

As at 31 December 2017

	<i>Szallas.hu Ltd.</i>	<i>D-ÉG Thermoset Ltd.</i>	<i>Company for Cash Services Ltd.</i>	<i>Total</i>
Total assets	1,667	3,883	2,289	7,839
Total liabilities	722	4,629	-	5,351
Shareholders' equity	945	(746)	2,289	2,488
Total revenues	3,459	2,386	127	5,972
Ownership	30%	0.10%	20%	

As at 31 December 2016

	<i>Szallas.hu Ltd.</i>	<i>D-ÉG Thermoset Ltd.</i>	<i>Company for Cash Services Ltd.</i>	<i>Suzuki Pénzügyi Szolgáltató Ltd.</i>	<i>Total</i>
Total assets	1,148	4,862	2,302	579	8,891
Total liabilities	543	4,004	103	-	4,650
Shareholders' equity	605	858	2,199	579	4,241
Total revenues	2,647	4,399	1,152	2	8,200
Ownership	30%	0.10%	20%	50%	

NOTE 34: TRUST ACTIVITIES (in HUF mn)

The Bank acts as a trustee for certain loans granted by companies or employers to their employees, mainly for housing purposes. The ultimate risk for these loans rests with the party advancing the funds. As these loans and related funds are not considered to be assets or liabilities of the Group, they have been excluded from the accompanying Consolidated Statement of Financial Position.

	2017	2016
The amount of loans managed by the Group as a trustee	39,413	35,383

NOTE 35: CONCENTRATION OF ASSETS AND LIABILITIES

	2017	2016 (Restated)	2015 (Restated)
In the percentage of the total assets			
Receivables from, or securities issued by the Hungarian Government or the NBH	21.69%	23.13%	28.36%

There were no other significant concentrations of the assets or liabilities of the Group as at 31 December 2017 or 2016.

The Group continuously provides the Authority with reports on the extent of dependency on large depositors as well as the exposure of the biggest 50 depositors towards the Group.

Further to this obligatory reporting to the Authority, the Group pays particular attention on the exposure of its largest partners and cares for maintaining a closer relationship with these partners in order to secure the stability of the level of deposits.

The organisational unit of the Group in charge of partner-risk management analyses the biggest partners on a constant basis and sets limits on the Bank's and the Group's exposure separately partner-by-partner. If necessary, it modifies partner-limits in due course thereby reducing the room for manoeuvring of the Treasury and other business areas.

¹ Based on unaudited financial statements.

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NOTE 36: MATURITY ANALYSIS OF ASSETS, LIABILITIES AND LIQUIDITY RISK (in HUF mn)

Liquidity risk is a measure of the extent to which the Group may be required to raise funds to meet its commitments associated with financial instruments. The Group maintains its liquidity profiles in accordance with regulations prescribed by the NBH.

The essential aspect of the liquidity risk management strategy is to identify all relevant systemic and idiosyncratic sources of liquidity risk and to measure the probability and severity of such events. During liquidity risk management the Group considers the effect of liquidity risk events caused by reasons arising in the bank business line (deposit withdrawal), the national economy (exchange rate shock yield curve shock) and the global financial system (capital market shock).

In line with the Group's risk management policy liquidity risks are measured and managed on multiply hierarchy levels and applying integrated unified VaR based methodology. The basic requirement is that the Group must keep high quality liquidity reserves which means it can fulfill all liabilities when they fall due without material additional costs.

The liquidity reserves can be divided in two parts. There are separate decentralized liquid asset portfolios at subsidiary level and a centralized flexible liquidity pool at a Group level. The reserves at subsidiary levels are held to cover the relevant shocks of the subsidiaries which may arise in local currencies (deposit withdrawal, local capital market shock, unexpected business expansion), while the centralized liquidity pool is held to cover the Bank's separate shocks (deposit-, yield curve- and exchange rate shocks) and all group member's potential shocks that may arise in foreign currencies (deposit withdrawal, capital market shock).

The recalculation of shocks is made at least quarterly while the recalibration of shock measurement models and review of the risk management methodology is an annual process. The monitoring of liquidity reserves for both centralized and decentralized liquid asset portfolio has been built into the daily reporting process.

Due to the balance sheet adjustment process (deleveraging) experienced in the last few years, the liquidity reserves of the Group increased significantly while the liquidity risk exposure has decreased considerably. Currently the (over)coverage of potential liquidity risk exposure by high quality liquid assets is very high. In year 2017 there were no material changes in the liquidity risk management process.

The contractual amounts disclosed in the maturity analyses are the contractual undiscounted cash-flows like gross finance lease obligations (before deducting finance charges); prices specified in forward agreements to purchase financial assets for cash; net amounts for pay-floating/receive-fixed interest rate swaps for which net cash-flows are exchanged; contractual amounts to be exchanged in a derivative financial instrument for which gross cash-flows are exchanged; gross loan commitments.

Such undiscounted cash-flows differ from the amount included in the statement of financial position because the amount in that statement is based on discounted cash-flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the end of the period.

The following tables provide an analysis of assets and liabilities about the non-discounted cash-flow into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities.

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NOTE 36: MATURITY ANALYSIS OF ASSETS, LIABILITIES AND LIQUIDITY RISK
(in HUF mn) [continued]

As at 31 December 2017	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Banks	1,198,257	22	-	-	293	1,198,572
Placements with other banks, net of allowance for placement losses	353,289	57,534	67,814	-	1,183	479,820
Securities held for trading	69,004	74,337	93,041	9,833	6,405	252,620
Securities available-for-sale	186,336	459,696	1,029,498	393,069	33,153	2,101,752
Loans, net of allowance for loan losses	858,922	1,483,399	2,651,539	2,450,010	1,090	7,444,960
Associates and other investments	-	-	-	-	12,269	12,269
Securities held-to-maturity	62,873	64,141	470,228	666,807	5	1,264,054
Property, equipment and intangible assets	788	2,025	8,269	47,804	354,504	413,390
Investment properties	-	-	450	6,966	27,969	35,385
Other assets ¹	<u>132,921</u>	<u>40,143</u>	<u>43,589</u>	<u>4,027</u>	<u>21,290</u>	241,970
TOTAL ASSETS	<u>2,862,390</u>	<u>2,181,297</u>	<u>4,364,428</u>	<u>3,578,516</u>	<u>458,161</u>	<u>13,444,792</u>
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	146,667	47,467	124,910	153,089	-	472,133
Deposits from customers	8,864,259	1,032,706	250,209	91,438	-	10,238,612
Liabilities from issued securities	8,758	13,234	223,785	2,092	-	247,869
Other liabilities ¹	363,012	28,852	21,500	13,172	3,579	430,115
Subordinated bonds and loans	<u>325</u>	<u>2</u>	-	<u>75,701</u>	-	<u>76,028</u>
TOTAL LIABILITIES	<u>9,383,021</u>	<u>1,122,261</u>	<u>620,404</u>	<u>335,492</u>	<u>3,579</u>	<u>11,464,757</u>
NET POSITION	<u>(6,520,631)</u>	<u>1,059,036</u>	<u>3,744,024</u>	<u>3,243,024</u>	<u>454,582</u>	<u>1,980,035</u>
Receivables from derivative financial instruments classified as held for trading	1,370,126	972,622	585,361	136,689	-	3,064,798
Liabilities from derivative financial instruments classified as held for trading	<u>(1,665,817)</u>	<u>(796,322)</u>	<u>(513,955)</u>	<u>(150,520)</u>	-	<u>(3,126,614)</u>
Net position of financial instruments classified as held for trading	<u>(295,691)</u>	<u>176,300</u>	<u>71,406</u>	<u>(13,831)</u>	-	<u>(61,816)</u>
Receivables from derivative financial instruments designated as fair value hedge	4,302	62,093	158,991	66,120	-	291,506
Liabilities from derivative financial instruments designated as fair value hedge	<u>(402)</u>	<u>(307,404)</u>	<u>(468,105)</u>	<u>(20,241)</u>	-	<u>(796,152)</u>
Net position of financial instruments designated as fair value hedge	<u>3,900</u>	<u>(245,311)</u>	<u>(309,114)</u>	<u>45,879</u>	-	<u>(504,646)</u>
Net position of derivative financial instruments total	<u>(291,791)</u>	<u>(69,011)</u>	<u>(237,708)</u>	<u>32,048</u>	-	<u>(566,462)</u>
Commitments to extend credit	730,236	754,814	205,020	40,620	340	1,731,030
Bank guarantees	<u>120,691</u>	<u>177,311</u>	<u>134,118</u>	<u>98,445</u>	<u>1,794</u>	<u>532,359</u>
Off-balance sheet commitments	<u>850,927</u>	<u>932,125</u>	<u>339,138</u>	<u>139,065</u>	<u>2,134</u>	<u>2,263,389</u>

¹ Without derivative financial instruments.

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NOTE 36: MATURITY ANALYSIS OF ASSETS, LIABILITIES AND LIQUIDITY RISK
(in HUF mn) [continued]

As at 31 December 2016 (Restated)	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Banks	1,229,096	396,261	-	-	-	1,625,357
Placements with other banks, net of allowance for placement losses	280,215	29,213	52,133	15,431	228	377,220
Securities held-for-trading	13,545	22,445	24,416	11,782	7,869	80,057
Securities available-for-sale	56,516	104,970	1,001,181	256,265	30,292	1,449,224
Loans, net of allowance for loan losses	1,025,865	889,362	1,836,910	2,497,755	468	6,250,360
Associates and other investments	-	-	-	-	9,836	9,836
Securities held-to-maturity	57,025	65,146	362,898	582,257	-	1,067,326
Property, equipment and intangible assets	444	1,780	10,887	9,844	332,561	355,516
Investment properties	4,200	-	9,187	6,190	9,869	29,446
Other assets ¹	570	2,382	16,824	1,567	-	21,343
TOTAL ASSETS	<u>2,667,476</u>	<u>1,511,559</u>	<u>3,314,436</u>	<u>3,381,091</u>	<u>391,123</u>	<u>11,265,685</u>
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	159,624	54,276	176,214	154,507	-	544,621
Deposits from customers	6,878,058	1,385,744	222,739	67,052	-	8,553,593
Liabilities from issued securities	24,586	29,374	86,613	6,958	-	147,531
Other liabilities ¹	324,404	31,697	16,440	8,340	2,582	383,463
Subordinated bonds and loans	353	164	1	-	76,945	77,463
TOTAL LIABILITIES	<u>7,387,025</u>	<u>1,501,255</u>	<u>502,007</u>	<u>236,857</u>	<u>79,527</u>	<u>9,706,671</u>
NET POSITION	<u>(4,719,549)</u>	<u>10,304</u>	<u>2,812,429</u>	<u>3,144,234</u>	<u>311,596</u>	<u>1,559,014</u>
Receivables from derivative financial instruments classified as held for trading	2,320,707	547,029	154,793	20,451	-	3,042,980
Liabilities from derivative financial instruments classified as held for trading	<u>(2,306,574)</u>	<u>(539,463)</u>	<u>(143,258)</u>	<u>(23,499)</u>	-	<u>(3,012,794)</u>
Net position of financial instruments classified as held for trading	<u>14,133</u>	<u>7,566</u>	<u>11,535</u>	<u>(3,048)</u>	<u>-</u>	<u>30,186</u>
Receivables from derivative financial instruments designated as fair value hedge	7,795	1,732	73,499	4,442	-	87,468
Liabilities from derivative financial instruments designated as fair value hedge	<u>(6,687)</u>	<u>(205)</u>	<u>(98,096)</u>	<u>(4,233)</u>	-	<u>(109,221)</u>
Net position of financial instruments designated as fair value hedge	<u>1,108</u>	<u>1,527</u>	<u>(24,597)</u>	<u>209</u>	<u>-</u>	<u>(21,753)</u>
Net position of derivative financial instruments total	<u>15,241</u>	<u>9,093</u>	<u>(13,062)</u>	<u>(2,839)</u>	<u>=</u>	<u>8,433</u>
Commitments to extend credit	410,141	589,593	188,911	45,689	116	1,234,450
Bank guarantees	<u>145,896</u>	<u>114,319</u>	<u>59,638</u>	<u>104,974</u>	<u>1,714</u>	<u>426,541</u>
Off-balance sheet commitments	<u>556,037</u>	<u>703,912</u>	<u>248,549</u>	<u>150,663</u>	<u>1,830</u>	<u>1,660,991</u>

¹ Without derivative financial instruments.

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NOTE 37: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF mn)

As at 31 December 2017

	USD	EUR	CHF	Others	Total
Assets	530,142	2,604,035	67,349	3,654,025	6,855,551
Liabilities	(585,891)	(2,266,480)	(101,631)	(3,236,902)	(6,190,904)
Off-balance sheet assets and liabilities, net ¹	<u>78,813</u>	<u>278,963</u>	<u>(1,665)</u>	<u>(374,122)</u>	<u>(18,011)</u>
Net position	<u>23,064</u>	<u>616,518</u>	<u>(35,947)</u>	<u>43,001</u>	<u>646,636</u>

As at 31 December 2016

	USD	EUR	CHF	Others	Total
Assets	294,327	2,162,945	46,261	2,778,704	5,282,237
Liabilities	(504,644)	(1,652,058)	(37,597)	(2,355,397)	(4,549,696)
Off-balance sheet assets and liabilities, net ¹	<u>221,409</u>	<u>174,524</u>	<u>(17,096)</u>	<u>(344,752)</u>	<u>34,085</u>
Net position	<u>11,092</u>	<u>685,411</u>	<u>(8,432)</u>	<u>78,555</u>	<u>766,626</u>

The table above provides an analysis of the main foreign currency exposures of the Group. The remaining foreign currencies are shown within 'Others'. 'Others' category contains mainly foreign currencies in RON, RSD, HRK, UAH, RUB and BGN. The Group monitors its foreign exchange position for compliance with the regulatory requirements of the National Banks and its own limit system established in respect of limits on open positions. The measurement of the open foreign currency position of the Group involves monitoring the "VaR" limit on the foreign exchange exposure of the Group.

NOTE 38: INTEREST RATE RISK MANAGEMENT (in HUF mn)

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, therefore, indicates to what extent it is exposed to interest rate risk.

The majority of the interest bearing assets and liabilities of the Group are structured to match either short-term assets and short-term liabilities, or long-term assets and liabilities with repricing opportunities within one year, or long-term assets and corresponding liabilities where repricing is performed simultaneously.

In addition, the significant spread existing between the different types of interest bearing assets and liabilities enables the Group to benefit from a high level of flexibility in adjusting for its interest rate matching and interest rate risk exposure.

The following table presents the interest repricing dates of the Group. Variable yield assets and liabilities have been reported in accordance with their next repricing date. Fixed income assets and liabilities have been reported in accordance with their maturity.

¹ Off-balance sheet assets and liabilities, net category contains derivative instruments.

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NOTE 38: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

As at 31 December 2017

ASSETS	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years	
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency
Cash, amounts due from banks and balances with the National Banks	205,408	435,363	2,977	290	-	22	-	-	-	-
fixed rate	203,141	363,723	2,972	290	-	22	-	-	-	-
variable rate	2,267	71,640	5	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Placements with other banks, net of allowance for placements losses	70,716	263,359	15,698	21,517	3,197	23,258	14,214	-	202	3,896
fixed rate	14,098	197,489	1,063	10,969	3,197	13,983	14,214	-	202	3,188
variable rate	56,618	65,870	14,635	10,548	-	9,275	-	-	-	708
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Securities held for trading	12,126	14,056	33,662	6,342	66,770	21,042	43,938	18,339	1,480	25,890
fixed rate	11,656	13,862	33,038	6,342	50,432	21,042	43,938	18,339	1,480	25,890
variable rate	470	194	624	-	16,338	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Securities available-for-sale	81,348	55,439	70,013	58,292	384,454	95,966	279,134	122,569	528,552	468,019
fixed rate	59,495	49,309	50,493	28,285	360,619	95,966	269,149	122,569	528,552	468,019
variable rate	21,853	6,130	19,520	30,007	23,835	-	9,985	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Loans, net of allowance for loan losses	877,092	2,323,586	665,244	725,290	224,567	683,897	122,063	248,308	505,101	500,411
fixed rate	40,871	306,371	24,701	110,151	56,856	322,608	58,585	230,020	210,269	443,789
variable rate	836,221	2,017,215	640,543	615,139	167,711	361,289	63,478	18,288	294,832	56,622
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Securities held-to-maturity	-	41,241	-	2,824	69,084	4,995	111,596	8,600	1,002,642	49,751
fixed rate	-	40,895	-	2,824	69,084	4,987	111,596	8,600	1,002,642	49,751
variable rate	-	346	-	-	-	8	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Derivative financial instruments	756,421	339,855	702,752	418,190	484,697	311,040	71,257	31,422	22,061	33,834
fixed rate	735,532	335,957	525,555	415,869	463,910	298,831	70,794	31,422	22,061	33,834
variable rate	20,889	3,898	177,197	2,321	20,787	12,209	463	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 38: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

As at 31 December 2017 [continued]

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years	
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency
LIABILITIES										
Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks	40,026	116,024	8,927	19,477	34,745	22,624	17,858	11,954	165,864	32,771
fixed rate	22,904	82,573	8,583	2,085	25,817	17,182	17,843	11,954	165,115	32,768
variable rate	17,122	33,451	344	17,392	8,928	5,442	15	-	749	3
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Deposits from customers	1,337,594	3,597,101	142,659	386,023	98,017	722,046	59,361	80,024	2,894,525	681,756
fixed rate	500,409	2,061,046	133,246	383,738	98,017	722,046	59,361	80,024	132,197	127,130
variable rate	837,185	1,536,055	9,413	2,285	-	-	-	-	2,762,328	554,626
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Liabilities from issued securities	53,686	1,358	2,309	2,462	7,621	3,265	39,818	251	134,286	57
fixed rate	429	58	2,309	22	7,621	357	39,818	251	134,286	57
variable rate	53,257	1,300	-	2,440	-	2,908	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Derivative financial instruments	875,512	207,974	909,079	147,684	397,702	309,225	43,494	9,167	35,935	38,342
fixed rate	853,960	204,051	770,912	123,845	394,530	303,888	43,428	9,167	35,935	38,342
variable rate	21,552	3,923	138,167	23,839	3,172	5,337	66	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Subordinated bonds and loans	-	-	-	76,020	-	-	-	-	-	1
fixed rate	-	-	-	76,020	-	-	-	-	-	-
variable rate	-	-	-	-	-	-	-	-	-	1
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Net position	(303,707)	(449,558)	427,372	601,079	694,684	83,060	481,671	327,842	(1,170,572)	328,874

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 38: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

As at 31 December 2016 (Restated)

ASSETS	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years	
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency
Cash, amounts due from banks and balances with the National Banks	501,289	530,368	185	262	-	80	-	-	-	-
fixed rate	500,465	443,693	9	174	-	80	-	-	-	-
variable rate	824	86,675	176	88	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Placements with other banks, net of allowance for placements losses	45,212	221,870	13,356	21,503	5	23,361	515	-	428	797
fixed rate	41,410	119,703	2,265	16,124	5	9,676	515	-	428	400
variable rate	3,802	102,167	11,091	5,379	-	13,685	-	-	-	397
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Securities held for trading	6,224	916	6,634	2,213	11,757	13,311	119	12,187	5,235	15,431
fixed rate	2,419	916	6,167	2,213	7,268	13,311	119	12,187	5,235	15,431
variable rate	3,805	-	467	-	4,489	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Securities available-for-sale	22,867	29,448	17,896	44,262	84,337	81,962	330,032	29,066	555,385	279,939
fixed rate	-	23,320	1,772	14,040	84,337	81,960	330,032	29,066	555,385	279,939
variable rate	22,867	6,128	16,124	30,222	-	2	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Loans, net of allowance for loan losses	550,597	1,796,652	713,311	746,620	314,546	266,373	221,238	140,765	478,810	323,363
fixed rate	26,310	296,834	46,718	66,807	63,103	186,381	67,008	124,752	166,910	299,293
variable rate	524,287	1,499,818	666,593	679,813	251,443	79,992	154,230	16,013	311,900	24,070
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Securities held-to-maturity	-	28,815	25,292	3,976	220,251	3,548	59,501	4,805	693,487	58,954
fixed rate	-	28,184	25,292	3,976	220,251	3,534	59,501	4,805	693,487	58,954
variable rate	-	631	-	-	-	14	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Derivative financial instruments	440,563	790,425	533,092	178,159	197,126	85,164	25,585	140,406	32,478	35,595
fixed rate	425,320	435,181	261,919	111,266	195,635	72,291	25,585	140,406	32,478	35,595
variable rate	15,243	355,244	271,173	66,893	1,491	12,873	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 38: INTEREST RATE RISK MANAGEMENT (in HUF mn) [continued]

As at 31 December 2016 (Restated) [continued]

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years	
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency
LIABILITIES										
Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks	79,392	141,526	6,066	16,888	53,690	8,908	34,791	8,471	180,193	11,766
fixed rate	78,779	58,004	5,974	859	27,356	5,625	34,744	5,740	179,983	6,219
variable rate	613	83,522	92	16,029	26,334	3,283	47	2,731	210	5,547
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Deposits from customers	1,310,585	2,524,949	351,252	363,467	378,096	596,436	5,227	138,664	1,988,233	736,961
fixed rate	514,177	1,185,713	326,181	360,605	378,096	596,436	5,227	138,664	4,454	99,215
variable rate	796,408	1,339,236	25,071	2,862	-	-	-	-	1,983,779	637,746
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Liabilities from issued securities	1	9,340	2,957	9,375	7,480	18,451	9,320	204	87,367	38
fixed rate	1	8,238	2,957	8,386	7,480	16,542	9,320	204	87,367	38
variable rate	-	1,102	-	989	-	1,909	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Derivative financial instruments	1,105,795	124,832	534,213	150,853	249,185	11,700	161,519	16,746	41,332	59,631
fixed rate	740,009	119,742	313,883	56,132	248,403	2,351	161,519	16,746	41,332	59,631
variable rate	365,786	5,090	220,330	94,721	782	9,349	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Subordinated bonds and loans	-	-	-	76,936	-	-	-	-	-	-
fixed rate	-	-	-	-	-	-	-	-	-	-
variable rate	-	-	-	76,936	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-
Net position	(929,021)	597,847	415,278	379,476	139,571	(161,696)	426,133	163,144	(531,302)	(94,317)

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 39: CONSOLIDATED EARNINGS PER SHARE (in HUF mn)

Consolidated Earnings per share attributable to the ordinary shares of the Group are determined by dividing consolidated Net profit for the period attributable to ordinary shareholders, after the deduction of declared preference dividends, by the weighted average number of ordinary shares outstanding during the year. Dilutive potential ordinary shares are deemed to have been converted into ordinary shares.

	2017	2016
Consolidated net profit for the period attributable to ordinary shareholders (in HUF mn)	281,142	202,210
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	261,743,165	264,214,052
Basic Earnings per share (in HUF)	<u>1,074</u>	<u>765</u>
Consolidated net profit for the period attributable to ordinary shareholders (in HUF mn)	281,142	202,210
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	261,851,512	264,266,374
Diluted Earnings per share (in HUF)	<u>1,074</u>	<u>765</u>

	2017	2016
	Number of shares	
Weighted average number of ordinary shares	280,000,010	280,000,010
Average number of Treasury shares	18,256,845	15,785,958
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS	<u>261,743,165</u>	<u>264,214,052</u>
Dilutive effects of options issued in accordance with the remuneration policy and convertible into ordinary shares ¹	108,347	52,322
The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS	<u>261,851,512</u>	<u>264,266,374</u>

¹ Both in year 2017 and 2016 the dilutive effect is in connection with the Remuneration Policy and the Management Option Program.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 40: NET GAIN OR LOSS REALIZED ON FINANCIAL INSTRUMENTS (in HUF mn)

As at 31 December 2017

	Net interest gain and loss	Net non- interest gain and loss	Provision for impairment	Other Comprehensive Income
Cash, amounts due from banks and balances with the National Banks	1,444	-	-	-
Placements with other banks, net of allowance for placements losses	4,178	-	(228)	-
Securities held for trading	-	3,829	-	-
Securities available-for-sale	34,442	4,101	7	17,227
Loans, net of allowance for loan losses	513,919	19,218	(40,620)	-
Securities held-to-maturity	56,343	-	3	-
Other assets	3,219	-	-	-
Derivative financial instruments	4,079	5,617	-	-
Amounts due to banks , the Hungarian Government, deposits from the National Banks and other banks	(9,308)	-	-	-
Deposits from customers	(46,574)	178,168	-	-
Liabilities from issued securities	(5,727)	-	-	-
Subordinated bonds and loans	(2,259)	=	=	=
Total	<u>553,756</u>	<u>210,933</u>	<u>(40,838)</u>	<u>17,227</u>

As at 31 December 2016

	Net interest gain and loss	Net non- interest gain and loss	Provision for impairment	Other Comprehensive Income
Cash, amounts due from banks and balances with the National Banks	9,866	-	-	-
Placements with other banks, net of allowance for placements losses	4,263	-	133	-
Securities held for trading	-	1,450	-	-
Securities available-for-sale	34,557	19,378	55	12,993
Loans, net of allowance for loan losses	499,273	11,074	(93,605)	-
Securities held-to-maturity	51,427	-	-	-
Other assets	3,366	-	-	-
Derivative financial instruments	3,408	493	-	-
Amounts due to banks , the Hungarian Government, deposits from the National Banks and other banks	(7,723)	-	-	-
Deposits from customers	(63,743)	158,893	-	-
Liabilities from issued securities	(4,726)	-	-	-
Subordinated bonds and loans	(10,239)	=	=	=
Total	<u>519,729</u>	<u>191,288</u>	<u>(93,417)</u>	<u>12,993</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 41: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn)

In determining the fair value of a financial asset or liability the Group in the case of instruments that are quoted on an active market uses the market price. In most cases market price is not publicly available so the Group has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 41. e) for more information about fair value classes applied for financial assets and liabilities measured at fair value in these financial statements.

To provide a reliable estimate of the fair value of those financial instrument that are originally measured at amortized cost, the Group used the discounted cash-flow analyses (loans, placements with other banks, amounts due to banks, deposits from customers). The fair value of issued securities and subordinated bonds is based on quoted prices (e.g. Reuters). Cash and amounts due from banks and balances with the National Banks represent amounts available immediately thus the fair value equals to the cost.

The assumptions used when calculating the fair value of financial assets and liabilities when using valuation technique are the following:

- the discount rates are the risk free rates related to the denomination currency adjusted by the appropriate risk premium as of the end of the reporting period,
- the contractual cash-flows are considered for the performing loans and for the non-performing loans, the amortized cost less impairment is considered as fair value,
- the future cash-flows for floating interest rate instruments are estimated from the yield curves as of the end of the reporting period,
- the fair value of the deposit which can be due in demand cannot be lower than the amount payable on demand.

Classes of assets and liabilities not measured at fair value in the statement of financial position, the income approach was used to convert future cash-flows to a single current amount. Fair value of current assets is equal to carrying amount, fair value of liabilities from issued securities and other bond-type classes of assets and liabilities not measured at fair value measured based on Reuters market rates, and fair value of other classes not measured at fair value of the statement of financial position is measured at discounted cash-flow method. Fair value of loans, net of allowance for loan losses measured at discount rate adjustment technique, the discount rate is derived from observed rates of return for comparable assets or liabilities that are traded in the market.

Fair value measurements – in relation to instruments measured not at fair value – are categorized in level 2 of the fair value hierarchy.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 41: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn)

a) Fair value of financial assets and liabilities

	2017		2016 (Restated)
	Carrying amount	Fair value	Carrying amount
Cash, amounts due from banks and balances with the National Banks	1,198,045	1,195,075	1,625,357
Placements with other banks, net of allowance for placements losses	462,180	474,585	363,530
Financial assets at fair value through profit or loss	344,417	344,417	189,778
<i>Securities held for trading</i>	259,263	259,263	81,468
<i>Fair value of derivative financial instruments classified as held for trading</i>	85,154	85,154	108,310
Securities available-for-sale	2,174,718	2,174,718	1,527,093
Loans, net of allowance for loan losses ¹	6,987,834	7,458,834	5,736,232
Securities held-to-maturity	1,310,331	1,419,123	1,114,227
Fair value of derivative financial instruments designated as fair value hedge	10,277	10,277	7,887
Other assets	144,472	144,472	135,291
Financial assets total	<u>12,632,274</u>	<u>13,221,501</u>	<u>10,699,395</u>
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	472,068	464,194	543,775
Deposits from customers	10,233,471	10,221,086	8,540,583
Liabilities from issued securities	250,320	367,678	146,900
Fair value of derivative financial instruments classified as held for trading	69,874	69,874	75,871
Fair value of derivative financial instruments designated as fair value hedge	17,199	17,199	20,002
Other liabilities	404,268	404,268	364,503
Subordinated bonds and loans	76,028	72,890	77,458
Financial liabilities total	<u>11,523,228</u>	<u>11,614,189</u>	<u>9,769,092</u>

¹ Higher discount rate due to the lower yield environment resulted in higher fair value comparing to the carrying values.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 41: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

b) Fair value of derivative instruments

	Fair value	
	2017	2016
Interest rate swaps classified as held for trading		
Positive fair value of interest rate swaps classified as held for trading	33,377	38,878
Negative fair value of interest rate swaps classified as held for trading	(30,453)	(33,012)
Foreign exchange swaps classified as held for trading		
Positive fair value of foreign exchange swaps classified as held for trading	18,047	17,148
Negative fair value of foreign exchange swaps classified as held for trading	(14,745)	(13,125)
Interest rate swaps designated as fair value hedge		
Positive fair value of interest rate swaps designated as fair value hedge	6,639	6,888
Negative fair value of interest rate swaps designated as fair value hedge	(17,199)	(19,976)
CCIRS classified as held for trading		
Positive fair value of CCIRS classified as held for trading	16,976	33,768
Negative fair value of CCIRS classified as held for trading	(12,948)	(14,984)
Mark-to-market CCIRS classified as held for trading		
Positive fair value of mark-to-market CCIRS classified as held for trading	-	332
Negative fair value of mark-to-market CCIRS classified as held for trading	-	(700)
CCIRS designated as fair value hedge		
Positive fair value of CCIRS designated as fair value hedge	3,638	998
Negative fair value of CCIRS designated as fair value hedge	-	(26)
Other derivative contracts designated as fair value hedge		
Positive fair value of other derivative contracts designated as fair value hedge	-	1
Negative fair value of other derivative contracts designated as fair value hedge	-	-
Other derivative contracts classified as held for trading		
Positive fair value of other derivative contracts classified as held for trading	16,754	18,184
Negative fair value of other derivative contracts classified as held for trading	(11,728)	(14,050)
Derivative financial assets total	<u>95,431</u>	<u>116,197</u>
Derivative financial liabilities total	<u>(87,073)</u>	<u>(95,873)</u>
Derivative financial instruments total	<u>8,358</u>	<u>20,324</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 41: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Hedge accounting

The Group regularly enters into hedging transactions in order to decrease its financial risks. However some economically hedging transaction do not meet the criteria to account for hedge accounting, therefore these transactions were accounted as derivatives held for trading.

The summary of the hedging transactions of the Group are as follows:

As at 31 December 2017

Types of the hedges	Hedging instrument	Fair value of the hedging instrument	The nature of the risk being hedged
1) Fair value hedges	IRS	HUF (10,560) million	Interest rate
2) Fair value hedges	CCIRS	HUF 3,638 million	Interest rate / Foreign exchange
3) Net investment hedge in foreign operations ¹	CCIRS and issued securities	HUF (170) million	Foreign exchange

As at 31 December 2016

Types of the hedges	Hedging instrument	Fair value of the hedging instrument	The nature of the risk being hedged
1) Fair value hedges	IRS	HUF (13,088) million	Interest rate
2) Fair value hedges	CCIRS	HUF 972 million	Interest rate / Foreign exchange
3) Net investment hedge in foreign operations ¹	CCIRS and issued securities	HUF (577) million	Foreign exchange

d) Fair value hedges

1. Securities available-for-sale

The Group holds fixed interest rate securities denominated in foreign currencies (HUF, EUR, USD) and fixed interest rate government bonds denominated in HUF within the available-for-sale portfolio. These fixed interest rate securities are exposed to the fair value risk driven by the changes in the risk-free interest rates. In order to hedge the interest rate risk of the cash-flows the Group entered into pay fixed-receive floating interest rate swap transactions, where the risk from the cash-flows of the securities are swapped to payments linked to 3 or 12 month EURIBOR and the risk from the cash-flows of the bonds are swapped to payments linked to 6 month BUBOR, resulting in a decrease in the fair value exposure of the securities available-for-sale.

	2017	2016
Fair value of the hedging IRS instruments	(15,210)	(19,305)

¹ The objective of these hedge relationships is to mitigate the risk of changes in value of net investments in foreign subsidiaries (namely: DSK Bank EAD, OTP banka Hrvatska d.d., Crnogorska komercijalna banka a.d., OTP Banka Slovensko a.s.) due to change in foreign exchange rates.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 41: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

d) Fair value hedges [continued]

2. Loans to customers / corporates

The Group has fixed interest rate loans denominated in various currencies. These fixed interest rate loans are exposed to fair value risk of changes of risk-free interest rates. In order to hedge the interest rate risk of the cash-flows the Group entered into pay-fixed, receive floating interest rate swap transactions, where the risk of the payments from the loans are swapped to payments linked to 3 month EURIBOR or BUBOR resulting in a decrease in the interest-rate fair value exposure of the loans to customers.

The Bank has further floating interest rate loans denominated in RON and CHF. These loans are exposed to the change of foreign exchange of RON and CHF and the risk of changes in interest rates of CHF. In order to hedge the foreign currency risk and the interest rate risk OTP entered into CCIRS transactions.

	2017	2016
Fair value of the hedging IRS instruments	(9)	(4)
Fair value of the hedging CCIRS instruments	3,638	972

3. Issued securities

The cash-flows of the fixed rate securities issued by the Group are exposed to the change in the HUF/EUR foreign exchange rate and the risk of change in the risk-free interest rates of EUR and HUF. The interest rate risk and foreign exchange risk related to these securities are hedged with EUR and HUF IRS and index option transactions. In the case of IRS transactions the fixed cash-flows were swapped to payments linked to 3 month EURIBOR or BUBOR, resulting a decrease in the interest rate and foreign exchange exposure of issued securities.

	2017	2016
Fair value of the hedging IRS instruments	4,659	6,221

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 41: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

d) Fair value hedges [continued]

As at 31 December 2017

Types of hedged items	Types of hedging instruments	Fair value of the hedged items	Fair value of the hedging instruments	on the he
Securities available-for-sale	IRS	HUF 939,611 million	HUF (15,210) million	HUF 7,136 n
Loans to customers	IRS	HUF 536 million	HUF (9) million	HUF 5 millio
Loans to customers	CCIRS	HUF 85,904 million	HUF 3,638 million	HUF (3,653)
Liabilities from issued securities	IRS	HUF 52,701 million	HUF 4,659 million	HUF 930 mi

As at 31 December 2016

Types of hedged items	Types of hedging instruments	Fair value of the hedged items	Fair value of the hedging instruments	on the he
Securities available-for-sale	IRS	HUF 881,730 million	HUF (19,305) million	HUF 11,723
Loans to customers	IRS	HUF 451 million	HUF (4) million	HUF (161) n
Loans to corporates	CCIRS	HUF 53,937 million	HUF 972 million	HUF (168) n
Liabilities from issued securities	IRS	HUF 69,959 million	HUF 6,221 million	HUF 7,512 n

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NOTE 41: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

e) Fair value levels

Methods and significant assumptions used to determine fair value of the different levels of financial instruments:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly. Fair value measurements – in relation with instruments measured not at fair value – are categorized in level 2;
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

As at 31 December 2017	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	340,749	159,049	181,700	-
<i>from this: securities held for trading</i>	255,595	158,769	96,826	-
<i>from this: positive fair value of derivative financial instruments classified as held for trading</i>	85,154	280	84,874	-
Securities available-for-sale	2,151,973	1,693,738	448,397	9,838 ¹
Positive fair value of derivative financial instruments designated as fair value hedge	<u>10,277</u>	-	<u>10,277</u>	-
Financial assets measured at fair value total	<u>2,502,999</u>	<u>1,852,787</u>	<u>640,374</u>	<u>9,838</u>
Negative fair value of derivative financial instruments classified as held for trading	69,874	188	69,686	-
Negative fair value of derivative financial instruments designated as fair value hedge	<u>17,199</u>	-	<u>17,199</u>	-
Financial liabilities measured at fair value total	<u>87,073</u>	<u>188</u>	<u>86,885</u>	<u>=</u>
As at 31 December 2016 (Restated)	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	188,848	62,876	125,972	-
<i>from this: securities held for trading</i>	80,538	62,789	17,749	-
<i>from this: positive fair value of derivative financial instruments classified as held for trading</i>	108,310	87	108,223	-
Securities available-for-sale	1,511,519	1,151,543	352,280	7,696 ¹
Positive fair value of derivative financial instruments designated as fair value hedge	<u>7,887</u>	-	<u>7,887</u>	-
Financial assets measured at fair value total	<u>1,708,254</u>	<u>1,214,419</u>	<u>486,139</u>	<u>7,696</u>
Negative fair value of derivative financial instruments classified as held for trading	75,871	267	75,604	-
Negative fair value of derivative financial instruments designated as fair value hedge	<u>20,002</u>	-	<u>19,943</u>	<u>59</u>
Financial liabilities measured at fair value total	<u>95,873</u>	<u>267</u>	<u>95,547</u>	<u>59</u>

¹ The portfolio includes Visa Inc. "C" convertible preferred stock and common shares.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 41: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

e) Fair value levels [continued]

Movements in Level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amount of Level 3 securities available-for-sale which are recorded at fair value:

Movement on securities available-for-sale in Level 3	Opening balance	Increase / (Decrease)	Closing balance
OTP Bank Plc.	1,863	547	2,410
OTP Factoring Ltd.	2,096	83	2,179
DSK Bank EAD	1,658	489	2,147
Splitska banka d.d.	-	1,079	1,079
OTP Factoring Ukraine LLC	979	(266)	713
OTP banka Hrvatska d.d.	379	109	488
OTP Bank Romania S.A.	342	95	437
OTP Banka Slovensko a.s.	302	83	385
OTP banka Srbija a.d.	3	(3)	-
LLC AMC OTP Capital	<u>74</u>	<u>(74)</u>	-
Total	<u>7,696</u>	<u>2,142</u>	<u>9,838</u>

There were no movements among the levels of fair value hierarchy for the year ended 31 December 2017 and 2016.

OTP BANK PLC.
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NOTE 42: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS
(in HUF mn)

The Group distinguishes business and geographical segments. The report on the base of the business and geographical segments is reported below.

The reportable segments of the Group on the base of IFRS 8 are the following:

OTP Core Hungary, Russia, Ukraine, Bulgaria, Romania, Serbia, Croatia, Slovakia, Montenegro, Leasing subsidiaries, Asset Management subsidiaries, Other subsidiaries and Corporate Center.

OTP Core is an economic unit for measuring the result of core business activity of the Group in Hungary. Financials for OTP Core are calculated from the partially consolidated financial statements of the companies engaged in the Group's underlying banking operation in Hungary. These companies include OTP Bank Hungary Plc., OTP Mortgage Bank Ltd., OTP Building Society Ltd., OTP Factoring Ltd., OTP Financial Point Ltd., and companies providing intragroup financing. The Bank Employee Stock Ownership Plan Organization was included from the fourth quarter of 2016; OTP Card Factory Ltd., OTP Facility Management Llc., Monicomp Ltd. and OTP Real Estate Lease Ltd. were included from the first quarter of 2017. The consolidated accounting results of these companies are segmented into OTP Core and Corporate Centre. Latter is a virtual entity.

Within the Group, the Corporate Centre acts as a virtual entity established by the equity investment of OTP Core for managing the wholesale financing activity for all the subsidiaries within the Group but outside OTP Core. Therefore the balance sheet of the Corporate Centre is funded by the equity and intragroup lending received from OTP Core, the intragroup lending received from other subsidiaries, and the subordinated debt and senior notes arranged by OTP under its running EMTN program. From this funding pool, the Corporate Centre is to provide intragroup lending to, and hold equity stakes in OTP subsidiaries outside OTP Core. Main subsidiaries financed by Corporate Centre are as follows: Hungarians: Merkantil Bank Ltd, Merkantil Car Ltd, Merkantil Leasing Ltd, OTP Fund Management Ltd, OTP Real Estate Fund Management Ltd, OTP Life Annuity Ltd; foreigners: banks, leasing companies, factoring companies.

The results of OTP Factoring Ukraine LLC, OTP Factoring SRL, OTP Factoring Bulgaria LLC, OTP Factoring Serbia d.o.o., OTP Factoring Montenegro d.o.o. and OTP Factoring Slovensko s.r.o. are included into the foreign banks segment.

The activities of the other subsidiaries are out of the leasing and fund management activity, such as: OTP Real Estate Ltd., OTP Life Annuity Ltd, OTP Funds Servicing and Consulting Ltd., OTP Building s.r.o., OTP Real Slovensko s.r.o.

The reportable business and geographical segments of the Group are those components where:

- separated incomes and expenses, assets and liabilities can be identified and assignable to the segments,
- transactions between the different segments were eliminated,
- the main decisive board of the Group regularly controls the operating results,
- separated financial information is available.

Goodwill / investment impairment and their tax saving effect:

In the year ended 31 December 2017 in case of OTP Life Annuity Ltd. and R.E. Four d.o.o., OTP Hungaro-Projekt Ltd., OTP Real Estate Leasing Ltd., Air-Invest Ltd., OTP Bank JSC, and OTP Factoring Ukraine LLC HUF 1,824 million tax shield was recognized due to impairment on investment, which affect was compensated by HUF 7,384 million as release of impairment on subsidiaries: Merkantil Bank Ltd., OTP Mortgage Bank Ltd., OTP banka Hrvatska d.d., Crnogorska komercijalna banka a.d. Altogether in year 2017 with HUF 504 million goodwill impairment on OTP Banka Slovensko a.s. the tax shield was HUF 6.064 million. In year 2016 in OTP Factoring Ukraine LLC HUF 11,552 million due to the impairment on investment tax shield was recognized.

Information regarding the Group's reportable segments is presented below:

OTP BANK PLC.
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NOTE 42: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS
(in HUF mn) [continued]

As at 31 December 2017

Main components of the Consolidated Statement of Profit or Loss in HUF million	OTP Group - consolidated - in the Consolidated Statement of Profit or Loss - structure of accounting reports	Adjustments on the accounting in Recognized Income	OTP Group - consolidated - in the Consolidated Statement of Profit or Loss - structure of management reports	OTP CORE (Hungary)	Foreign banks subtotal (without adjustments)	JSC "OTP Bank" (Russia) and Touch Bank	OTP Bank JSC (Ukraine)	DSK Bank EAD (Bulgaria)	OTP Bank Romania S.A. (Romania)	OTP banka Srbija a.d. and Vojvodjanska banka a.d. (Serbia)	OTP banka Hrvatska d.d. and Splitska banka d.d. (Croatia)	OTP Banka Slovensko a.s. (Slovakia)	Cmogor komercijalna banka a.d. (Montenegro)
	a	b	1=a+b	2	3=4+...+11	4	5	6	7	8	9	10	11
Net profit for the year	281,339		281,339										
Adjustments (total)		(2,732)	(2,732)										
Dividends and net cash transfers (after income tax)		680	680										
Goodwill / investment impairment (after income tax)		(6,064)	(6,064)										
Bank tax on financial institutions (after income tax)		(15,233)	(15,233)										
Fine imposed by the Hungarian Competition Authority (after income tax)		177	177										
Effect of acquisition (after income tax)		17,708	17,708										
Consolidated adjusted net profit for the year	281,339	2,733	284,072	168,575	96,652	20,381	14,120	47,121	3,036	(2,905)	17,106	(2,051)	
Profit before income tax	322,842	(1,421)	321,421	185,561	115,015	26,079	17,074	52,041	3,952	(3,014)	20,848	(1,820)	
Adjusted operating profit	363,690	(531)	363,159	150,833	192,737	64,497	18,876	61,460	9,346	1,360	28,780	6,616	
Adjusted total income	863,140	(58,195)	804,945	365,591	398,148	127,249	34,595	108,290	27,138	10,071	63,644	17,452	
Adjusted net interest income	553,756	(7,102)	546,654	234,304	289,639	103,094	23,060	72,257	19,779	7,235	44,313	13,358	
Adjusted net profit from fees and commissions	261,193	(51,765)	209,428	109,128	85,453	23,135	9,716	27,714	3,064	2,275	12,603	3,627	
Adjusted other net non-interest income	48,191	672	48,863	22,159	23,056	1,020	1,819	8,319	4,295	561	6,728	467	
Adjusted other administrative expenses	(499,450)	57,664	(441,786)	(214,758)	(205,411)	(62,752)	(15,719)	(46,830)	(17,792)	(8,711)	(34,864)	(10,836)	
Total risk costs	(40,848)	(4,835)	(45,683)	30,783	(77,722)	(38,418)	(1,802)	(9,419)	(5,394)	(4,374)	(7,932)	(8,436)	
Adjusted provision for impairment on loan and placement losses (without the effect of revaluation of FX)	(40,848)	9,789	(31,059)	33,586	(67,107)	(37,561)	(1,060)	(3,571)	(5,062)	(3,133)	(7,498)	(8,358)	
Other provision (adjustment)	0	(14,624)	(14,624)	(2,803)	(10,615)	(857)	(742)	(5,848)	(332)	(1,241)	(434)	(78)	
Total other adjustments (one-off items)¹	0	3,945	3,945	3,945	0	0	0	0	0	0	0	0	
Income tax	(41,503)	4,154	(37,349)	(16,986)	(18,363)	(5,698)	(2,954)	(4,920)	(916)	109	(3,742)	(231)	
Total Assets	13,190,228	0	13,190,228	7,704,135	6,488,032	671,724	312,334	1,925,740	624,060	482,887	1,821,613	452,084	197,176
Total Liabilities	11,550,173	0	11,550,173	6,273,879	5,635,488	529,369	278,254	1,675,445	570,578	402,817	1,582,678	419,884	176,000

() used at: provisions, impairment and expenses

¹ One-off item consists of: the result of the treasury share swap agreement at OTP Core in the amount of HUF 3,945 million.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 42: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS
(in HUF mn) [continued]

As at 31 December 2016

Main components of the Consolidated Statement of Profit or Loss in HUF million	OTP Group - consolidated - in the Consolidated Statement of Profit or Loss - structure of accounting reports	Adjustments on the accounting in Recognized Income	OTP Group - consolidated - in the Consolidated Statement of Profit or Loss - structure of management reports	OTP CORE (Hungary)	Foreign banks subtotal (without adjustments)	JSC "OTP Bank" (Russia)	OTP Bank JSC (Ukraine)	DSK Bank EAD (Bulgaria)	OTP Bank Romania S.A. (Romania)	OTP banka Srbija a.d. (Serbia)	OTP banka Hrvatska d.d. (Croatia)	OTP Banka Slovensko a.s. (Slovakia)	Cmogorska komercijalna banka a.d. (Montenegro)
	a	b	1=a+b	2	3=4+...+11	4	5	6	7	8	9	10	11
Net profit for the year	202,452		202,452										
Adjustments (total)		1,276	1,276										
Dividends and net cash transfers (after income tax)		412	412										
Goodwill / investment impairment (after income tax)		11,552	11,552										
Bank tax on financial institutions (after income tax)		(13,950)	(13,950)										
Fine imposed by the Hungarian Competition Authority (after income tax)		1,922	1,922										
Expected corporate tax impact of switching to IFRS from HAS in Hungary		(5,766)	(5,766)										
Revaluation of deferred taxes recognized in the P&L due to the corporate tax rate cut in Hungary		(6,054)	(6,054)										
Gain on the sale of Visa Europe shares (after income tax)		13,160	13,160										
Consolidated adjusted net profit for the year	202,452	(1,276)	201,176	122,190	73,623	14,636	10,202	47,383	1,653	39	3,782	(2,224)	(1,480)
Profit before income tax	236,395	8,376	244,771	151,866	86,165	19,648	11,679	52,380	2,136	5	4,647	(2,480)	(1,480)
Adjusted operating profit	329,868	6,032	335,900	143,672	179,108	54,537	22,217	70,111	8,543	697	13,538	6,780	2,224
Adjusted total income	785,966	(49,651)	736,315	354,671	349,556	106,031	37,304	112,502	26,643	7,720	31,442	17,892	10,480
Adjusted net interest income	519,729	2,221	521,950	235,871	272,618	92,025	26,478	84,023	20,315	5,769	22,800	14,257	4,224
Adjusted net profit from fees and commissions	222,991	(47,025)	175,966	100,214	64,636	13,749	8,746	26,034	3,230	1,653	5,330	3,272	1,480
Adjusted other net non-interest income	43,246	(4,847)	38,399	18,586	12,302	257	2,080	2,445	3,098	298	3,312	363	1,480
Adjusted other administrative expenses	(456,098)	55,683	(400,415)	(210,999)	(170,448)	(51,494)	(15,087)	(42,391)	(18,100)	(7,023)	(17,904)	(11,112)	(7,023)
Total risk costs	(93,473)	254	(93,219)	6,104	(92,943)	(34,889)	(10,538)	(17,731)	(6,407)	(692)	(8,891)	(9,260)	(4,224)
Adjusted provision for impairment on loan and placement losses (without the effect of revaluation of FX)	(93,473)	20,249	(73,224)	14,036	(83,905)	(34,021)	(11,866)	(12,980)	(5,541)	(890)	(5,331)	(8,987)	(4,224)
Other provision (adjustment)	0	(19,995)	(19,995)	(7,932)	(9,038)	(868)	1,328	(4,751)	(866)	198	(3,560)	(273)	1,480
Total other adjustments (one-off items)¹	0	2,090	2,090	2,090	0	0	0	0	0	0	0	0	0
Income tax	(33,943)	(9,652)	(43,595)	(29,676)	(12,542)	(5,012)	(1,477)	(4,997)	(483)	34	(865)	256	1,480
Total Assets (restated)	11,209,041	0	11,209,041	7,148,667	4,820,637	648,807	307,117	1,852,901	588,188	123,279	649,063	453,720	197,480
Total Liabilities (restated)	9,788,392	0	9,788,392	5,836,208	4,224,484	518,032	282,874	1,605,634	545,678	94,474	575,037	426,381	176,224

() used at: provisions, impairment and expenses

¹ One-off item consists of: the result of the treasury share swap agreement at OTP Core in the amount of HUF 2,090 million.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 43: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2017

1) Term Note Program

See details in Note 16.

2) New acquisition in Croatia

Based on the acquisition agreement on purchasing 100% shareholding of Splitska banka d.d., member of Société Générale Group signed on 20 December 2016 between OTP banka Hrvatska, the Croatian subsidiary of OTP and Société Générale Group, on 2 May 2017 the financial closure of the transaction has been completed and Splitska banka was consolidated. The integration process may be completed by the second half of year 2018.

Splitska banka is the fifth biggest player on the Croatian banking market and as a universal bank it has been active in the retail and corporate segment as well.

3) New acquisition in Romania

OTP Bank Romania S.A., the Romanian subsidiary of OTP signed an acquisition agreement in July, 2017 on purchasing a 99.28% shareholding held in the Romanian Banca Romaneasca S.A. by National Bank of Greece S.A and certain other Romanian exposures held by different subsidiaries of National Bank of Greece S.A. signed in July 2017. The Competition Office has approved the transaction. The financial closing of the deal is subject to the necessary regulatory approvals by the central bank. The Group hasn't gained control over the company so in these consolidated financial statements for the end of year 2017 it hasn't been consolidated.

4) New acquisition in Serbia

OTP banka Srbija a.d. Novi Sad, the Serbian subsidiary of OTP signed an acquisition agreement on 4 August 2017 on purchasing 100% shareholding held in the Serbian Vojvodjanska banka a.d. („VOBAN”) and NBG Leasing d.o.o. and certain other Serbian exposures held by the Group of the National Bank of Greece S.A. The agreed consideration for the share capital of VOBAN and NBG Leasing amounts to EUR 125 million. The financial closing of the transaction has been completed on 1 December 2017. The Group has gained control over the company so in these consolidated financial statements for the end of year 2017 it has been consolidated.

NOTE 44: POST BALANCE SHEET EVENTS

1) Transition to application of IFRS 9

See details in Note 1.2.2.

NOTE 45: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE GROUP'S FINANCIALS (in HUF mn)

In 2017 the **eurozone** was clearly back on the map of growth, with recovery gaining momentum as a result of previously launched reforms, the end of fiscal tightening, but mostly because of the improving labour market. Preliminary data indicate that the eurozone's GDP grew by 2.5% in 2017, topping by a large margin analysts' forecasts, which estimated only 1.3-1.5% growth a year ago. With employment breaking records, consumer confidence and business sentiment hit all-time or ten-year highs, domestic demand picked up, helping Europe's economy leave the early stage of recovery and enter the phase of matured, broad-based growth, which can pave the way for lasting robust growth if external conditions remain favourable. In the years ahead, monetary policy will support economic growth, because despite the good prospects the European Central Bank (“ECB”) is likely to be rather cautious in normalizing monetary conditions.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 45: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE GROUP'S FINANCIALS (in HUF mn) [continued]

The ECB extended the length of its quantitative easing programme by additional nine months, until September 2018, reducing monthly purchases from EUR 60 billion to EUR 30 billion, and interest rate hikes are unlikely before 2019.

Over the past quarters, the **US economy** fared well. Although markets expected its growth to decelerate, by now these forecasts have shifted higher, to 2.6% year/year (2018) and to 2.2% (2019). In the first estimate, the US economy expanded by 2.3% (year/year) in full-year 2017. It took one year for Donald Trump to deliver on one of his key election promises, and pass the tax reform, which undoubtedly benefits the high-income earners. Meanwhile the Fed raised interest rates by 25 basis points (to 1.25-1.5%) three times in 2017, continuing similar moves in December 2015 and December 2016. The minutes of the December FOMC meeting reveal that the Fed's decision-makers plan two to four hikes, while the market expects two to three increases in 2018.

Hungary's full-year 2017 GDP growth surpassed all expectations, including our forecast. The 4.0% reading is the second strongest one since 2005 (it was 4.2% in 2014) but this is not outstanding in regional comparison: Romania sky-rocketed 6.9%, Poland surged 4.6%, and the Czech Republic expanded by 4.5%. The key driver of this robust expansion remained private consumption, which was coupled with an undoubted rise in private investment in 2017. The latter can be attributed to the rapid improvement in the real property sector as well as the technology developments necessitated by the capacity constraints in commercial and industrial real estates. Starting from the second half of 2017, agreements linked to EU projects resumed, giving a big boost to investment (in addition to a low base in 2016): its value added may have expanded by more than 20% last year, while the final consumption of households may have increased by about 4.5%. Nevertheless, economic actors are more cautious about manufacturing investments. Therefore, the stronger external demand caused by the more-robust-than-earlier-though upswing in the eurozone (2.5% economic growth versus the 1.5% forecast at the beginning of 2017) did not result in significant jump in industrial production or in the volume of exports. On balance, private sector without agriculture had a very strong year, growing by more than 6% on yearly base in the second half of 2017.

Hungary's balance indicators are favourable, the budget deficit remained modest despite the coming parliamentary elections, but public debt ratio is not shrinking as fast as had been expected, mostly because Eximbank's debt was re-classified as public sector debt. Owing to the import needs stemming from the strong domestic demand and the modest growth of exports, Hungary's external position started to deteriorate: the current account surplus shrank 2.4 percentage points, to 3.8% of GDP in 2017. The decline in external debt is slowing but that is not worrisome; the debt level is in line with the average of the CEE region.

Reversing the rise seen at the beginning of this year, the consumer price index started to drop in the autumn; the year/year index sank to nearly 2% by the turn of the 2017-2018 years. This owed a lot to fuel prices, the lower-than-expected food prices, and the surprisingly huge price fall in telecommunications services (due to VAT cuts in 2017 and 2018, and as roaming fees were abolished in July 2017). In 2018, one-off items help keep inflation around 2% (as the effects of cutting VAT and employers' contributions, and lifting excise duty and milk prices in 2017 all fade out) while in the corporate sector the (two years of) contribution cuts, and the efficiency improvement can still offset the cost pressure caused by double-digit wage growth. Therefore we do not expect considerable price hikes.

This helps the NBH maintain extra loose monetary conditions: short-term interest rates will remain near zero until the second half of 2019, while the long end of the yield curve is likely to move together with developed economies' benchmarks, in line with the communication of the Monetary Council's January rate-setting meeting. The NBH is unlikely to allow the forint's firming, but the Hungarian currency's exchange rate may move in the opposite direction. If the extra loose monetary conditions in Hungary, a slightly deteriorating external balance, and the increasingly tight monetary environments in the USA and the eurozone warrant a slight HUF depreciation, Hungary's central bank is unlikely to take action.

Russia continued its recovery from the recession of the recent years. In the middle of 2016, its GDP bottomed out, expanding by 1.5% in full year 2017, up from -0.2% in 2016. What supports its recuperation is that oil prices have grown by 60%, in rouble terms, from their lowest at the beginning of 2016. The higher oil price also benefits budget consolidation: the central budget's deficit contracted to almost 2% in 2017, down from 3.5% in 2016. Meanwhile inflation fell below the central bank's target of 4%, to 2.5% by December 2017. Disinflation benefited the continuation of the easing cycle, which also helped kick-start lending. Even though purging the banking system, a move encouraged by the central bank, caused the demise of some medium-sized banks in 2017, this did not shock the financial system as a whole. The decelerating inflation and the revival in lending helped household consumption bottom out, and surge 3.4% in 2017.

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NOTE 45: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE GROUP'S FINANCIALS (in HUF mn) [continued]

The economy became less vulnerable: the current account surplus amounted to 2.3% of GDP, and Russia's external debt dropped to 33.5% of GDP by December 2017, from 40% in the previous year. Currency reserves are steadily increasing, and the use of the budget's reserve funds has declined.

Ukraine's economic growth maintained the previous year's near-2% level in 2017, even though it was adversely affected by the blockade of the Eastern regions, which left its mark on industrial production for a while. Economic growth was driven by a revival in consumption, fuelled by the sharp growth in real wages; moreover strong investment activity also had a positive effect. In the second half of 2017, increasing government expenditure and improving net exports also benefited economic growth. This also means that economic growth was broad-based in 2017. We expect the positive contribution of consumption and net exports to continue, thus economic growth could exceed 3% in 2018. Inflation increased from 12.4% to 14.1% in 2017, due to higher staple food and administered prices, but the growing consumption activity and the depreciating hryvnia in the last quarter of 2017 also played part. Looking ahead, inflation in 2018 could be somewhat higher than expected due to base effects from 2017, but it could be around the central bank's 5% inflation target in 2019 when base effects fade.

The IMF programme went ahead in 2017, despite some delays in the reform process. The law on privatization, passed in January 2018, makes it easier and more efficient to sell loss-making state-owned companies. With this new reform, Ukraine could receive the next (fifth) tranche from the USD 17.5 billion IMF package in April 2018. Since 2016, no headway has been made in the military conflict in eastern Ukraine.

From 2017 the base of the **Hungarian banking tax** is the adjusted balance sheet total at the actual calendar year minus two years (i.e. for the 2017 banking tax calculation the end-2015 adjusted total assets must be used). The applicable upper tax rate has been moderated to 0.21%. The total annual amount of the banking tax payable in 2017 was already booked in one sum in 1Q 2017. Furthermore, the contribution tax introduced in 2006 was entirely abolished. In 2016 its annual amount was HUF 2.0 billion.

Effective from 1 January 2017 the **Hungarian corporate tax rate** was cut uniformly to 9%.

In 2017 the state subsidized housing loan disbursements represented 52.6 billion at OTP's Hungarian operation, up by 13% y-o-y, partially due to the additional demand generated by the **Housing Subsidy Scheme for Families (CSOK)**. In 2017 around 10,800 applications for the CSOK subsidy were registered with a value of HUF 39 billion. Applicants also combined CSOK subsidy with subsidized or market-based loan applications in the amount of HUF 63 billion in 2017.

In 2016 the NBH launched the third, so called "phasing out" stage of the **Funding for Growth Scheme**, under which the deadline for concluding loan contracts was 31 March 2017. According to the data published by the NBH on 5 April 2017 the Hungarian credit institutions participating in the third part of the FGS scheme have granted loans to Hungarian micro and SME companies in the amount of HUF 685 billion since the beginning of 2016, whereas OTP contracted for HUF 102 billion under the scheme.

Summary of the National Bank of Hungary's steps influencing interest rate and yield levels:

According to the decision of the Monetary Council, the maximum amount of 3 months deposits placed with the central bank at the end of March 2017 was reduced to HUF 750 billion. For the end of June 2017 the limit was set at HUF 500 billion and at HUF 300 billion for September, respectively.

On 19 September the Monetary Council set a limit of HUF 75 billion applicable from the end of 2017, whereas it also reduced the overnight deposit rate by 10 bps to -15 bps.

Driven also by the above decisions, the Hungarian money market interest rates sank to their historic lows: by the end of 2017 the 3M BUBOR diminished to 3 bps from 15 bps in September 2017 and 37 bps at the end of 2016.

After its September meeting the Monetary Council stressed that the stock of swap instruments will be increased in the coming period in order to provide the loosening effect up to the longest possible section of the yield curve as soon as possible.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 45: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE GROUP'S FINANCIALS (in HUF mn) [continued]

On its meeting held on 21 November 2017 the Council decided to introduce two unconventional instruments from January 2018 with an aim of loose monetary conditions to exert their effect not only at the short but also at the longer end of the yield curve. Pursuant to this,

- the Council introduced unconditional interest rate swap (IRS) facilities with five and ten-year maturities, the allocation amount of which has been set at HUF 300 billion for the first quarter of 2018. The IRS facilities are available for counterparty banks at regular tenders from the beginning of January 2018. The first tender was held on 18 January 2018. On 24 January 2018 the central bank revealed that it will announce its monetary policy interest rate swap facility at fixed rate tenders in the future (available for counterparty banks only), and the allocation among banks will be based upon balance sheet totals;
- additionally, the central bank launched a targeted programme, aimed at purchasing publicly issued, fixed-rate mortgage bonds from Hungarian issuers, denominated in forint, with an original maturity of at least 3 years and a current residual maturity of 1 year.

Both programmes contribute to an increase in the share of loans with long periods of interest rate fixation, thereby improving financial stability. The operational details of the programmes were disclosed by the central bank on 21 December 2017. The experiences from the consultation with market participants have also been incorporated by the central bank into the programmes.

Long-term yields decreased significantly in 4Q 2017. By the end of 2017 the 10 year government bond benchmark yield sank to 2.02% from 2.58% in September and 3.16% at the end of 2016.

The Budapest Stock Exchange, in cooperation with the MNB introduced three new mortgage bond indices in December 2017, which, at a later stage, may be potentially employed as official benchmarks also, according to the announcement.

At the end of December 2017 OTP kept HUF 17 billion in three-month central bank deposits. As for the distribution of the liquidity reserves of the Bank, during the last twelve months there has been a gradual shift towards longer duration Hungarian government securities.

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