Annual Report

2018

otpbank

Summary

Message from the Chairman of the Supervisory Board

With a tradition of 70 years on the banking market, OTP Group's business strategy remains focused on generating value for its clients, shareholders, and employees through the most efficient, retail-focused universal bank in CEE. The Group focuses its efforts on offering high quality customized services and constantly seeking to strengthen its innovation skills to meet current and future customers' needs.

In 2018, OTP Group increased its presence on the CEE market, with positive forecasts for further development of all OTP's operations in the region. OTP Group registered the highest consolidated net profit of its history, HUF 325,3 billion (over EUR 1 billion) versus HUF 284,1 billion (approximately EUR 910 billion) recorded in 2017. The Romanian business continued to increase in 2018, amid an effervescent political and economic landscape. OTP Bank Romania recorded a sustainable development throughout 2018, with organic increases in key indicators, from performing loans to the equity ratio, and immediate liquidity. In December 2018, the Bank ranks 9th in assets, with a market share of 2.46%, according to the quarterly report issued by the NBR.

The rise of OTP Bank Romania in the hierarchy of the top 10 local banks is due to the lending activity, which continued to grow faster than the market for mortgages and loans to companies, but also for actions to improve liquidity position. Thus, the immediate liquidity ratio increased by 8% compared to December 2017, reaching 29.1%, and the liquidity coverage ratio (CYP) reached 148% at the end of September.

The consolidation of OTP Bank Romania's position is due to lending activity as well as the actions to improve liquidity position, both achieved by attracting deposits and thanks to the new financing provided by OTP Group. Of course, also the process of strengthening the banking system helped, which influenced consistent position shifts in the biggest Romanian banks' list.

OTP Bank Romania will continue to raise awareness on the need for financial education in local communities. We established the Right to Education Foundation in 2014 when OTP Bank Romania decided to undertake a pioneering role in the financial education of young people, adults, and entrepreneurs. In 2018, The Right to Education Foundation has concluded partnerships with over 60 educational institutions and NGOs in order to implement courses across the country. As a result, trainers of the Right to Education Foundation shared the values and knowledge of OK Center with over 4,600 students from 35 settlements.

In October 2018 we celebrated a year since the first non-formal financial education center, OK Center, unique on the local market, was launched. In 2018, OK Center hosted a total of over 1,000 events dedicated to financial education and career guidance, conferences, trainings or creative events in partnership with NGOs, private organizations, entrepreneurs, or public institutions. Of these, 40% consisted of the modules of the financial education foundation for children and adults.

In the future, we will continue to pursue our strategic goal of organic growth in the local market. Our aim is to offer our clients and potential clients high-quality financial services customized to their actual needs, and this can only be achieved through constant business development. We will also continue to advocate the cause of financial education as we strongly believe that a healthy society starts with a solid economic background.

Antal György Kovács,
Chairman of the Supervisory Board

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Financial Highlights

FINANCIAL HIGHLIGHTS
MAIN FINANCIAL INDICATORS OF OTP GROUP

Main components of the Statement of recognised income in RON million	2017	2018	Y-o-Y
Consolidated after tax profit	4,156	4,646	12%
Adjustments (total)	-40	-102	154%
Consolidated adjusted after tax profit without the effect of adjustments	4,197	4,749	13%
Pre-tax profit	4,748	5,294	12%
Operating profit	5,365	5,618	5%
Total income	11,891	12,870	8%
Net interest income	8,076	8,755	8%
Net fees and commissions	3,094	3,222	4%
Other net non-interest income	722	893	24%
Operating expenses	-6,526	-7,252	11%
Total risk costs	-675	-382	-43%
One off items	58	58	0%
Corporate taxes	-552	-546	-1%
Main components of balance sheet closing balances in RON million	**2017**	**2018**	**YTD**
Total assets	198,141	211,423	7%
Total customer loans (net, FX adjusted)	106,898	116,890	9%
Total customer loans (gross, FX adjusted)	117,698	126,349	7%
Allowances for possible loan losses (FX adjusted)	-10,800	-9,459	-12%
Total customer deposits (FX adjusted)	156,775	163,528	4%
Issued securities	3,760	6,057	61%
Subordinated loans	1,142	1,180	3%
Total shareholders' equity	24,637	26,469	7%
Indicators based on adjusted earnings %, based on HUF numbers	**2017**	**2018**	**Y-o-Y**
ROE (from accounting net earnings)	18,5%	18,7%	0,2%p
ROE (from accounting net earnings, on 12.5% CET1 ratio)	22,4%	23,2%	0,8%p
ROE (from adjusted net earnings)	18,7%	19,1%	0,4%p
ROA (from adjusted net earnings)	2,4%	2,3%	0,0%p
Operating profit margin	3,03%	2,76%	-0,26%p
Total income margin	6,71%	6,33%	-0,38%p
Net interest margin	4,56%	4,30%	-0,25%p
Cost-to-asset ratio	3,68%	3,57%	-0,12%p
Cost/income ratio	54,9%	56,3%	1,5%p
Provision for impairment on loan and placement losses-to-average gross loans ratio	0,43%	0,23%	-0,20%p
Total risk cost-to-asset ratio	0,38%	0,19%	-0,19%p
Effective tax rate	11,6%	10,3%	-1,3%p
Net loan/(deposit+retail bond) ratio (FX adjusted)	68%	72%	3%p
Capital adequacy ratio (consolidated, IFRS) - Basel3	14,6%	18,3%	3,6%p
Tier1 ratio - Basel3	12,7%	16,5%	3,8%p
Common Equity Tier 1 ('CET1') ratio - Basel3	12,7%	16,5%	3,8%p

FINANCIAL HIGHLIGHTS
MAIN FINANCIAL INDICATORS OF OTP GROUP

Share Data	2017	2018	Y-o-Y
EPS diluted (HUF) (from unadjusted net earnings)	1,074	1,215	13%
EPS diluted (HUF) (from adjusted net earnings)	1,085	1,242	14%
Closing price (HUF)	10,720	11,290	5%
Highest closing price (HUF)	10,930	11,850	8%
Lowest closing price (HUF)	7,815	9,600	23%
Market Capitalization (EUR billion)	9,7	9,8	2%
Book Value Per Share (HUF)	5,857	6,524	11%
Tangible Book Value Per Share (HUF)	5,219	5,921	13%
Price/Book Value	1,8	1,7	-5%
Price/Tangible Book Value	2,1	1,9	-7%
P/E (trailing, from accounting net earnings)	10,7	9,9	-7%
P/E (trailing, from adjusted net earnings)	10,6	9,7	-8%
Average daily turnover (EUR million)	15	18	20%
Average daily turnover (million share)	0,5	0,5	7%
FX rates (in HUF)	**2017**	**2018**	**Y-o-Y**
HUF/RON (closing)	66,6	69,0	4%
HUF/RON (average)	67,7	68,5	1%

FINANCIAL HIGHLIGHTS
MAIN FINANCIAL INDICATORS OF OTP BANK ROMANIA S.A.

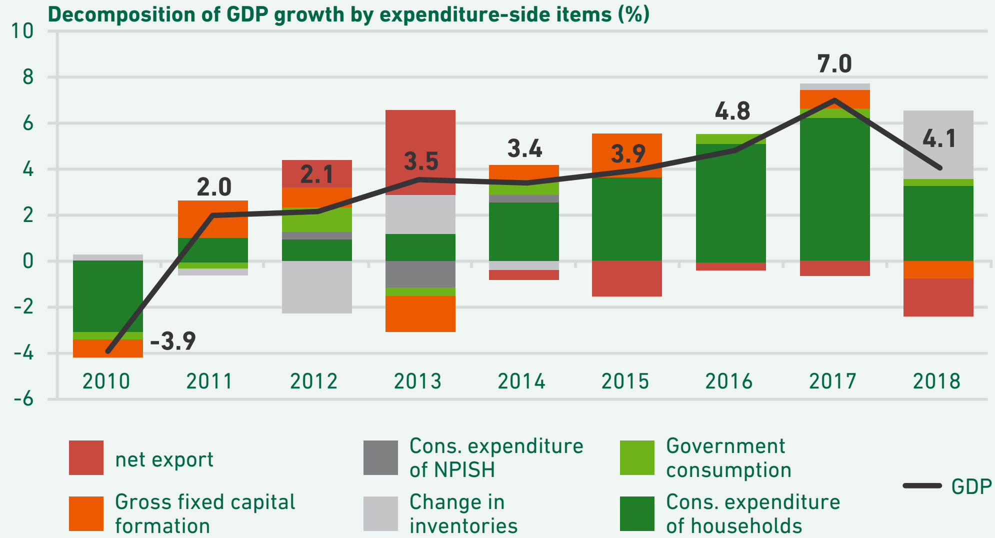
Main components of the Statement of recognised income in RON million	2017	2018	Y-o-Y
Profit after tax	84,5	26,2	31%
Pre-tax profit	100,8	43,6	43%
Operating profit	122,6	164,4	134%
Total income	411,7	470,7	114%
Net interest income	292,9	345,0	118%
Net fees and commissions	47,0	48,8	104%
Other net non-interest income	71,9	76,9	107%
Operating expenses	-289,1	-306,2	106%
Total risk cost	-21,8	-120,9	554%
Corporate taxes	-16,3	-17,4	107%
Main components of balance sheet closing balances in HUF mn	**2017**	**2018**	**Y-o-Y**
Total assets	9,145	11,053	121%
Total customer loans (net)	6,917	7,704	111%
Total customer loans (gross)	7,233	8,097	112%
Allowances for possible loan losses	-316	-393	124%
Total customer deposits	6,480	7,033	109%
Issued securities	-	-	
Subordinated loans	-	-	
Total shareholders' equity	1,152	1,215	105%
Indicators based on actual earnings %	**2017**	**2018**	**Y-o-Y**
ROE (Net earnings/Own capitals)	8,1%	2,2%	-5,9%
ROA (Net earnings/Total Assets)	1,0%	0,3%	-0,7%
Operating profit margin	1,3%	1,5%	0,1%
Total income margin	4,7%	4,7%	-0,1%
Net interest margin	3,4%	3,4%	0,0%
Cost-to-asset ratio	3,3%	3,0%	-0,3%
Cost/income ratio	70,2%	65,1%	-5,2%
Risk cost to average gross loans	0,3%	1,6%	1,3%
Total risk cost-to-asset ratio	0,3%	1,2%	0,9%
Effective tax rate	16,1%	39,8%	23,7%
Net loan/deposit ratio	107%	110%	2,8%
Capital adequacy ratio (IFRS)-Basel3	15,9%	18,2%	2,3%
Tier ratio - Basel3	15,9%	18,2%	2,3%
Common Equity Tier 1 (CET1) ratio - Basel3	15,9%	18,2%	2,3%

MACROECONOMIC AND FINANCIAL ENVIRONMENT

As expected, after skyrocketing in 2017, the country's economy has started to lose steam in 2018, pointing to 4.1% GDP growth, down from 7% a year earlier. This came as the impact of earlier fiscal stimulus measures has diminished, monetary policy turned less accommodative, and the momentum of the eurozone's economy also weakened. It is worth noting too that the relatively wide and rising current account deficit coupled with the stretched government budget suggests that growth has become more fragile.

The expenditure side of 2018 GDP data pointed to some structural weakness, as household consumption and inventories fuelled the economy, while investment and net export registered negative contribution to the GDP growth. Consumption remained the key driver, as tight labor market conditions, minimum and public wage hikes supported the disposable income of households. The very large contribution of inventories to GDP growth may signal that sales were not able to keep pace with production in the industry due to the deterioration in external demand. At the same time, gross fixed investment fell, dragged down primarily by new constructions. In contrast to exports (that was negatively influenced by the slowdown of the eurozone economy), imports continued to increase quite rapidly, backed by higher household expenditures.

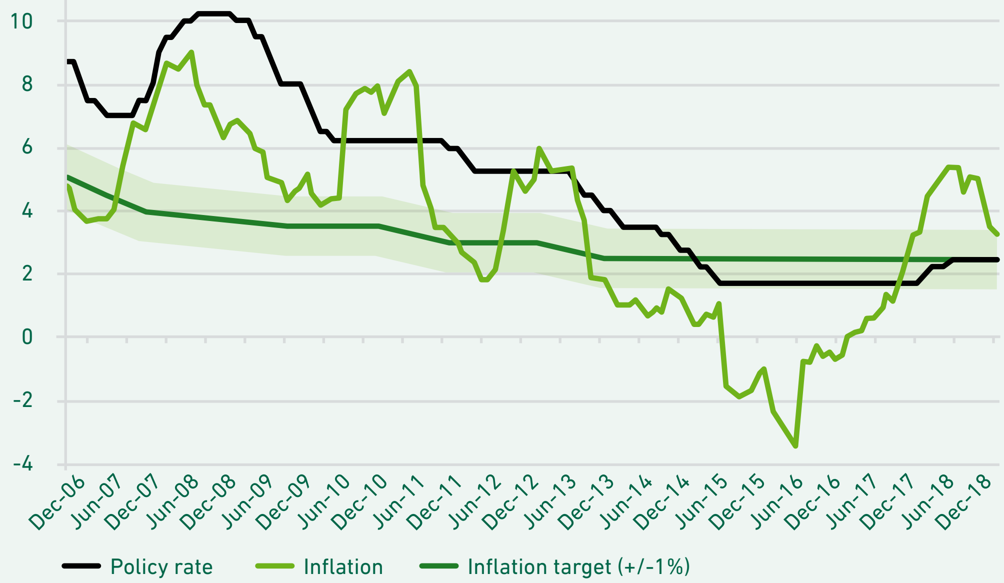
Decomposition of GDP growth by expenditure-side items (%)



Sources: NIS, OTP Research

On the production side, the key sectors of the economy lost some steam in 2018 still, **market services** pointed to a healthy increase with IT&C delivering again the fastest growth pace. Value added in **industry** decelerated somewhat due to weaker external demand. Simultaneously, **construction** output shrank, primarily, owing to a cool-down of the residential segment. **Agriculture** harvest hit another record high helped also by the structural progress of the sector.

NBR policy rate and inflation (%)



Sources: NIS, NBR

In 2018, Romania's **consumer price inflation** had broken above the NBR's target (2.5% +/- 1%), reaching as high as 5.4%, as it was fuelled by administered price hikes, soaring Brent, and the weaker leu. Nevertheless, headline inflation re-entered the tolerance band at year-end, owing to fading base effects and an unexpected fall of oil prices. With softening inflation pressure, the NBR adopted a wait-and-see approach, after implementing a series of **tightening measures** in the period of H2 2017 – H1 2018.

In 2018, Romanian **government securities yields** shifted higher with more significant increases at short-term maturities, mainly as a result of rebounding inflation coupled with monetary policy tightening. Worries around the procyclical fiscal policy as well as global factors played also an important role in the rise of yields. After the 2017's depreciation of the leu, the **EUR/RON** exchange rate stabilized in the beginning of 2018, supported also by the central bank's tightening steps.

Last year, Romanian authorities managed to keep the **government deficit** close to the 3% level, as the burden of higher public wages was mitigated mainly by increasing net social contribution as well as other correction measures. The still robust economic growth also helped to keep the deficit ratio under control. Public debt stood near 35% of GDP at the end of 2018, broadly unchanged compared to 2017.

The downward trajectory of the **current account balance** continued in 2018 too, as domestic-demand-fueled imports' growth outpaced that of exports. Last year's 4.5% deficit was barely covered by foreign direct investment flows as well as transfers from the EU.

Despite the sharp increase of financing costs, **non-government credit** expanded by 7.9% in 2018, up from 2017's 5.7% and 2016's 1.2% gains. The still robust economic expansion, rapid wage increases, and capacity constraints all supported demand from households and companies. Housing credit remained the main driver, posting double-digit growth pace (11.1%, slightly slower than 2017's 13.2% advance), while consumer (6.9% vs. 2.0%) and company loans (6.6% vs. 3.5%) accelerated. It is important to add that RON-denominated credit continued to increase swiftly (13.4%), while FX loans shrank further. At the same time, the system level NPL ratio decreased by 1.4 percentage points to 4.95%. Private deposits grew by 9.0%, helping the loan-to-deposit ratio to ease further.

The strengthening lending activity coupled with lower risk cost helped the **sector's profitability** to improve, with the system-wide ROE (return on equity) indicator climbing to 14.9%, versus 12.5% in 2017. Simultaneously, capital adequacy remained high.


Innovation
Branding
Solution
Marketing
Analysis
Ideas
Success
Management

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Business results

Business results

HISTORY OF OTP BANK ROMANIA

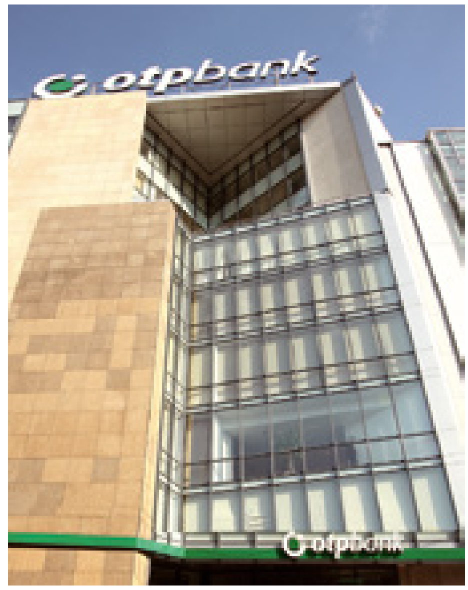
OTP Bank Romania, subsidiary of OTP Group, is an integrated and self-funded provider of financial services that entered the Romanian financial banking market in 2004, initially, as RoBank, which afterward became OTP Bank Romania.

2005 was the year when OTP Bank Romania entered the retail market, thus launching its first products for individuals: personal loan, personal loan with mortgage, overdraft, banking deposit, and current account. 12 new units were opened in 2005, as well.

Seven types of banking cards were launched in 2006, both designed for individuals and companies. Two of them were absolute premiers on the local market: the first co-branded credit card issued with MOL Romania and the first transparent credit card. At the end of the third quarter of 2007, the total assets of OTP Bank Romania increased by 15.9%. In only one month, December 2007, 20 new branches were opened, OTP Bank Romania reaching a significant number of 104 branches.

2008 was the first profitable year in the history of OTP Bank Romania. Thus, the bank recorded an operating income increase of 65.5%. 2008 also marked a significant increase in assets, loans, and deposit volumes. Compared to 2007, the total assets have increased by 24%, the volume of loans rose by almost 50%, while the volume of the deposit increased by 20%. 2009 and 2010 were difficult years for the players on the banking market. During these crisis years, OTP Group's main targets (hence OTP Bank Romania's targets) were stability, liquidity, and profitability.

The Romanian subsidiary of OTP Group



ended the year 2011 with a positive financial performance, according to the original report submitted to the Budapest Stock Exchange. The bank registered a profit of RON 13 million after tax, while the operating result remained stable during the year.

During 2012, OTP Bank Romania further consolidated its position on the local market, turning challenges into development opportunities. In 2013, the bank employed a prudent strategy, but at the same time, took advantage of the extending loans volume and of the fact that OTP Bank Romania is a self-financed bank.

On July 30th, 2014, OTP Bank Romania signed the contract for the acquisition of Millennium Bank Romania, a subsidiary of Banco Comercial Portugues. The value of the transaction amounted to EUR 39 million. Millennium Bank Romania had nearly 80 thousand clients and a network of 56 units and 58 ATMs, with a strong concentration in Bucharest.

While the acquisition was completed in January 2015, the integration process was finalized in November 2015. Following the integration, the market share of OTP Bank Romania rose to approximately 2% in terms of assets. The total number of branches in Romania increased by 24 units during 2015, while the new customers' portfolio reached more than 426,000 clients, increasing by 13% compared to the portfolio served before the acquisition.

In December 2015, OTP Bank Romania launched a conversion program for its retail CHF mortgage loans. The program emphasized the bank's wish to re-establish a strong and healthy long-term relationship with its customers, by always looking for those pragmatic solutions, adapted to the economic realities of the market. The program continued in 2016, and more than 70% of the bank's customers with Swiss franc loans paid a lower rate when they accepted the offer proposed by the bank. The offer initiated by the bank represented a financial effort of RON 425 million.

However, OTP Bank Romania continued to thrive and achieved a net profit of HUF 1.65 billion (RON 24 million) in 2016 - an increase of 12% compared to 2015. At the same time, the bank continued to develop its portfolio of banking products by creating solutions dedicated to individuals, businesses, and SMEs, as well as digital applications and the development of internet banking.

2017 was also a productive year for the OTP Bank subsidiary in Romania, which posted the highest net profit in history: HUF 3 billion (RON 45 million), a remarkable improvement by 80.8% compared to 2016. The Bank dedicated 2017 to innovation and improved its digital services for both customers and internal operations. An important event was the signing of an acquisition agreement for 99.28% of Banca Românească's assets, owned by The National Bank of Greece. Although the acquisition did not materialize, OTP Bank's management remains committed to strengthening its presence on the Romanian market through organic growth or new acquisitions.

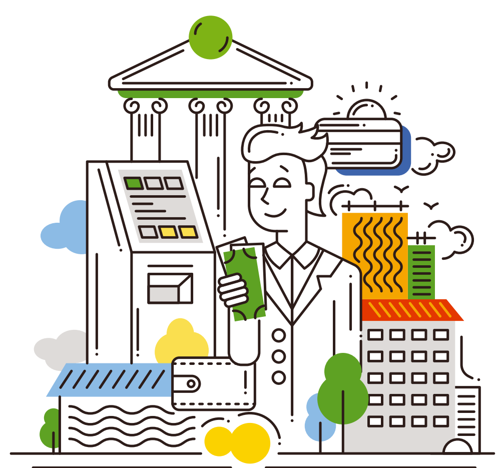
OTP Bank grew organically and managed to consolidate its position on the Romanian market, reaching 9th on the banking market, with a market share of 2.46% in September 2018. At the end of the year, OTP Bank Romania had a team of 1,364 employees, with an increase of 7% compared to 2017. The team serves an expanded portfolio of more than 358,000 customers. OTP Bank's territorial network includes 94 branches, while the number of ATMs reached 140. Also, in 2018, the loans volume increased by 14%, supported by the dynamic evolution of mortgage loans and loans to SMEs, and the rate of non-performing loans fell to 5.1%, - 8.4 percentage points versus 2017.

OTP BANK ROMANIA'S APPROACH

OTP Bank Romania has been present on the Romanian banking market for over 14 years as a universal bank offering complete financial solutions for individuals and companies.

OTP Bank Romania has grown organically since its entry into the domestic market, while at the same time strengthening its position in 2016, following the completion of Millennium Bank Romania's integration process in November 2015, proving a strong, stable and trustworthy partner for customers, collaborators, and employees.

In 2018, OTP Bank Romania consolidated its systemic position and climbed two positions in the largest bankers on the local market top, ranking 9th on assets.

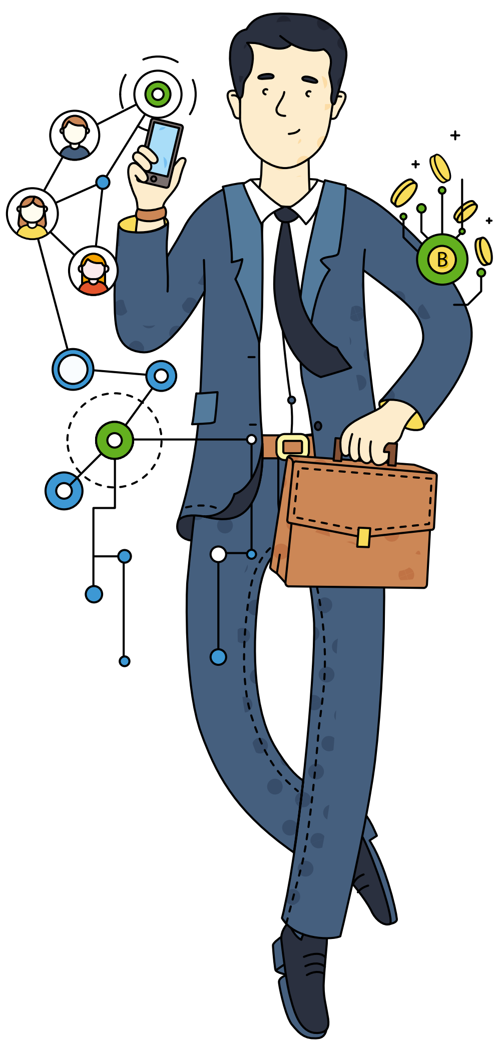


Throughout 2018, OTP Bank has continued to offer its clients a wide range of products tailored to their expectations, as well as superior experience. The bank developed fast and easy financing solutions such as the SME Loan Project or the Start-Up Hero package.

For the corporate clients' segment, a new concept was created, "Corporate Officer", an office dedicated to this type of client in branches.

The Bank has also contributed to agribusiness projects, such as the Rural Development Plan, the EAFRD (European Agricultural Fund for Rural Development).

For individuals, the bank focused on cash, mortgage and car loans, and among the most important achievements is the launch of a new campaign for 7-month term deposits with competitive prices, both when the OTC transaction ends, but also within OTPdirekt; promoting personal needs loans through a new marketing strategy through TV campaigns exposure.



The individuals' approach also includes a 5-step educational campaign, encouraging people to use debit cards for transactions instead of cash withdrawals; as a result, 13.3% of the customers moved from cash to card purchases.

OTP New Leaders was launched, a new development program within the organization dedicated to a small group of employees, department managers newly appointed either through internal promotion or through external recruitment.

The Right to Education Foundation has developed and implemented OTP Financial Fitness - adult financial education courses. At the same time, OK Center reached 20,000 visitors in 2018.

We are committed to our goal to offer a full range of top-quality financial services by operating in a prudent and transparent manner and through constant innovation. We rely our success on customer's trust, built on the understanding of their local and regional needs, and on the professionalism of our employees, which we support in their development.

Romania is one of the most attractive markets in the region, thus our decisions are meant to support local bank development and strategic objectives of the group.

TARGETS

In 2018 the OTP Bank Romania activity was marked by the consolidation of the financial products and services portfolio, that serves the contemporary needs of clients, from individuals to companies or private banking customers. Through this expansion, we are getting closer to the goal that we are continuously pursuing: becoming a reliable partner for our clients through customized services for each one of them.

Our plan is to continue to acquire transactional customers for whom OTP Bank Romania is the best choice. We are committed to our role as a financial mentor through which we promise to connect customers to growth opportunities. This also implies delivering innovative and pragmatic solutions, in an ever more mobile time and space.

At the same time, we are committed to our pioneering role in financial education for young people, adults, and entrepreneurs. In this regard, we want to build a responsible financial culture that assures a balanced risk appetite and contributes overall to the current needs of society.

We find this way of thinking essential for our success. During 2019 we plan to grow organically, and this can only be achieved by cultivating excellence at all levels.

OBJECTIVES

In 2018, we managed to strengthen our systemic position and climbed to the top 10 banks on the local market, ranked 9th on assets.

We implement an ambitious plan to improve customers' experience with the bank and streamlining operational efficiency through digitization programs, and improving customer experience, through several distinct projects.

Our future objective revolves around the desire for organic growth. This plan will materialize through the ongoing consolidation programs of OTP Bank Romania launched in 2018 and also by initiating new ones. Among these, we mention some strategic directions: **increasing the number of SME customers and improving processes,** the **digitalization programs** which include the implementation of the Customer Relationship Management application, the Business Process Management application, and the Digital Archive Management solution.

We will also pay great attention to financial education for both children and adults through the Right to Education Foundation's projects.

OTP BANK ROMANIA STRATEGIC PROJECTS

In 2018, the bank continued the actions initiated the previous year aiming at increasing digitalization and developing the business platforms and in the same time initiated new projects with the objective of supporting the bank's activity and contributing to the development and improvement of customer experience.

Also, the bank continued to develop regulatory projects aiming to ensure conformity with national and international regulations.

In this regard, the projects ran by the bank in 2018 covered most business and operational areas, being at the same time aligned to the bank's strategy.

The main business and optimization projects developed by the bank in 2018 were:

- **Finance and Planning optimization project,** having as main objective to increase the automation of reporting, ultimately aiming at providing accurate information to internal and external clients;
- **Digitalization program,** comprising several projects:
  - o **Implementation of a Business Process Management (BPM) platform** with the main scope of increasing the efficiency of business processes;
  - o **Customer Experience Project for individuals** with the main scope of improving individual customers' experience regarding all the activities which involve client interactions;
  - o **Customer analytics project** with objectives like understanding the behavior by clients segments and identifying new campaigns to be used for churn prevention, up-sell, customer activation;
  - o In order to support the digitalization initiatives, the bank decided to implement an IT solution for electronic archive, that was developed through the **Project for implementation of the solution for management of digital archive,** a

solution that was integrated with other applications.
- The project of implementing an application of **Wealth Management** for the distribution of funds for Private Banking clients of Private Banking category clients.

In addition, during 2018 a new strategic project was initiated in the bank, namely the implementation of **Data Warehouse** with the main objective of ensuring the data and information requirements to support daily operational activity as well as to facilitate the business decision process.

Alongside business processes, the Bank developed big projects aiming at ensuring compliance with regulatory requirements, among which we mention:

- **IFRS 9 and IFRS 16 projects** with the objective of aligning the bank to new international accounting standards
- **PSD2 project,** having as scope the implementation of the provisions of European Directive 2015/2366, also named Payments Services Directive 2 (PSD2);
- **GDPR project,** with the objective to ensure compliance with the provisions of European regulation regarding individual data protection (European Regulation 2019/679);
- **MiFID II project,** having as main objective to ensure implementation of the MiFID II legislative package (MiFID II Directive and Regulation EU MIFIR the Bank).

OTPdirekt

Internet Banking, SmartBank, Contact Center, SMS Alerts and Push Notification

OTPdirekt is a high-quality service package, which perfectly fits the modern lifestyle. It is a comfortable, omnichannel fast and secure alternative that allows customers to carry out transactions and receive information about the accounts, without having to come to the bank's territorial units, in conditions of utmost security. OTPdirekt is the service through which OTP Bank Romania offers its clients the possibility to access their banking accounts 24 hours a day, through four channels.

1. OTPdirekt – Internet Banking (transactions and information)

Available 24 hours out of 24, 7 days a week, the Internet Banking service brings all the information about the customer's accounts to an 'enter' distance. The commissions for payments can be two times smaller than those in the OTP Bank's territorial units, while the account balance interrogation and the account statement are free of charge. The following functions are available through the Internet Banking service:

- check the account's balance;
- check transaction history;
- transfers in lei or foreign currencies to beneficiaries with accounts at any bank, be it Romanian or foreign;
- standing orders;
- foreign exchanges;
- transfers between the same customer's accounts;
- opening/ viewing/ closing deposits;
- account balance generated in files that can be printed or saved on the user's computer;
- special payments model for utility bills;
- detailed information about loans, insurance policies information, incoming and outgoing debit instruments, and collateral deposits (through Electronic RM menu);
- importing domestic or foreign payments from a file, for example inter-banking payments, payments representing treasury rates and taxes, transfers to beneficiaries who have accounts opened at OTP Bank Romania, etc.;
- creating models of domestic payments;
- models of foreign currency payments;
- sending and receiving messages to/ from the bank:
- modifying card limits, online payment activation, report lost/ stolen card;
- personal financial tool - MyMentor; setting budgets and new goals, transaction categorization;
- account opening;
- self-reset and unblocking of the internet banking access code;
- SMS Alerts and Push Notification configuration;

- Money Magnet: transferring money from other banks to OTP Bank accounts, using debit cards issued by other banks in Romania.
- Subscription of investment funds
- Nearest ATMs or branches by client location

2. OTPdirekt – SmartBank (transactions and information)

A secured application downloadable from Google Play, Apple Store that allows clients to access information about their financial situation and to make transactions via a smartphone. The following functions are available:

- check the account's balance;
- check transaction history;
- transfers in lei, transfers between own accounts;
- foreign payments to OTP Bank clients;
- foreign exchanges;
- create deposits;
- closing deposits;
- cards information menu;
- changing card limits, enabling virtual payments, card lock;
- loans information menu;
- Money Magnet: money online transfer from other banks to OTP Bank accounts, using debit cards issued by other banks in Romania;
- My Mentor: list of transaction, categorization;
- ATM and branch locator of OTP Bank Romania;
- foreign exchange rates;
- bank contact;
- received messages;
- languages: Romanian/ English / Hungarian.

3. OTPdirekt – Contact Center (transactions and information)

With OTPdirekt - Contact Center, one phone call is enough to find out any information regarding OTP Bank or to order transactions and operations on your accounts. The bank representatives can be reached free of charge in all networks, by calling 0800.88.22.88. Contact Center can be contacted also from international networks and through local networks at operator's costs, by dialing +4021.308.57.10. The Contact Center can be reached from Monday to Friday, starting from 08:30 until 21:00 (local Romanian time).

Besides general information regarding OTP Bank, through OTPdirekt – Contact Center, customers can find out anything they want about the bank's financial products and services, about the exchange rates, standard commissions, and many others. If a customer already has an OTP Bank account, then he can choose:

- to obtain specific information (private) regarding his financial status (accounts, deposits, credits, taxes, commissions, special offers, etc.);
- to perform transactions/ operations: opening current accounts, transfers, and payments in lei or foreign currencies, exchange, card blocking, opening/ closing deposits, closing/ ending/ modifying/ suspending an intra–banking direct debit payment.

4. OTPdirekt – SMS/PUSH Alerts (information only)

OTPdirekt – SMS/PUSH Alerts refers to sending SMS alerts on the mobile telephone numbers indicated by the client, according to

the contract signed with OTP Bank Romania, or PUSH message on the smartphone with the SmartBank application installed.

The alerts received through an SMS/PUSH notification can be of several types, depending on the client needs:

- account balance: this alert sends to the client the balance for the account selected in the contract, at a requested date;
- account control: the client is informed about the activities on the current account (crediting/ debiting of the account, regardless of the reason), having full control on his account, in real time;
- card control: sends an alert immediately after the card is involved in a transaction (POS/ online payments/ cash withdrawals) or security inquiry (incorrect PIN/ CVC);
- NBR Exchange Rate: this alert will send, daily, the NBR quotations (from Monday to Friday), after 13:00 o'clock (after the official exchange rates are supplied by NBR);
- debit instruments for payment: the alert will be sent in real time immediately after the information for the instrument is verified in the system. It is useful for the clients to better manage their payment instruments;
- electronic RM: are sent only for legal entities, to be notified concerning the maturity of credit facilities, commissions, loan installments, loans interests, deposits that reach their maturity. Together with the alert sent on the mobile phone, the customers will also be notified through the alerts received on the Internet Banking interface;
- deposits maturity: this alert sends SMS/ PUSH notification three working days before the deposit maturity, regardless of the type of deposit or its maturity option. The alert contains information regarding the amount of the deposit, the account alias, interest rate, maturity option, and maturity date;
- garnishment alert: this alert is available both for individuals, legal entities and private entrepreneur customers and will be sent to the client in the same day when the garnishment will be constituted, starting with 08:00 AM. The alert is detailed and offers information about the amount of garnishment, type of garnishment, garnishment file number and exchange rate.

The number of OTPdirekt – Internet Banking and Contact Center users, on December 31, 2018, was 113.968, divided as follows:

- private individuals: 96.556
- legal entities: 17.412.

The number of OTPdirekt – SMS Alerts contracts, on December 31, 2018, was 88.486 divided as follows:

- private individuals: 80.962
- legal entities: 7.524

The number of SMS messages sent to the clients during 2018 was 10.679.993.

The number of calls to the Contact Center received in 2018 was 122.582.

The number of transactions through OTPdirekt – Contact Center was 6, and through OTPdirekt - Internet Banking 2.637.613 by the end of 2018.

The SmartBank application was launched on December 7, 2012, and until the end of 2018, it registered 46.371 users.

The transaction volume through OTPdirekt was:

- Contact Center: 133 EUR;
- Internet Banking: 8.097.972.795 EUR.

BANK CARD BUSINESS

In 2018, OTP Bank Romania managed to further increase its bank card portfolio through steady organic growth.

OTP Bank expanded the card acquiring business on the Merchant POS segment and succeeded to continuously improve the quality of the card-related products and services offered to its customers. At the end of 2018, the merchant POS network reached over **4,360 POSs,** with a focus on the expansion of the new contactless POS terminals, replacing the older non-contactless models.

As of December 2018, the active bankcard portfolio of OTP Bank Romania increased with **19%** compared to the previous year. The debit card segment represents 95%, while the credit cards stand for around 5% of the total bankcard portfolio. The cards new sales in 2018 mainly consisted of salary cards, pension cards, and SME business cards, as the strategic focus of the bank was on attracting new income transfer clients, as well as micro and small companies, through a wide range of competitive packages, addressed both to individuals and legal entities.

The total volume of bank card transactions performed by the OTP Bank cardholders in 2018 reached **RON 2,751** million, which marked a stable increase of **11%** compared to the previous year. On the card acquiring side, the Merchant POS transactions volume registered a solid increase of **39%** in 2018, reaching **RON 2.001 million.**

Among the most important OTP Bank Romania card related projects in 2018, we mention the expansion of the contactless debit cards portfolio, as well as expanding the POS business through strategic partnerships in the market. An important project consisted in introducing a new credit card feature with the aim of increasing card usage at merchants: Mastercard Installments Program. Considering the debit card portfolio, an educational project was initiated with the aim of switching the card usage from ATM withdrawals to POS purchases. The project ran for a period of 3 months with a success rate of more than 10%.

Currently, OTP Bank Romania offers one of the most comprehensive card product portfolios on the Romanian market, consisting of the following main products:

- MasterCard Flat and Standard (RON & EUR) - debit cards for individuals;
- Visa Business and Visa Business Silver (RON & EUR) - debit cards for companies;
- MasterCard Standard and Visa Transparent - credit cards for individuals;
- Visa Junior Plus and Junior Max (RON & EUR) - debit cards for individuals;
- VISA Sapientia - co-branded debit card;
- VISA Gold - credit card for individuals (premium);
- MasterCard OTP-MOL - co-branded credit card;
- MasterCard Platinum - credit card (Private Banking);
- Visa Business Silver - credit card for SMEs.

INDIVIDUALS (LOANS AND LIABILITIES)

In 2018, the main activities were associated with increasing the portfolio of clients both for liabilities and lending side. In the same time, the main challenge was to maintain the quality of the existing portfolio of loans, while increasing the portfolio of new consumer loans of the bank.

Loans

During 2018, OTP Bank Romania constantly offered lending solutions through dedicated campaigns or by adjusting the existing products to the market requirements and to the clients need, also through periodical updates of the pricing conditions for its lending offer for the customers.

On the lending segment, according to the bank's strategy, OTP Bank Romania focused on increasing the number and volume of credits to customers with good payment behavior as well as maintaining a good quality of the portfolio, by offering to the clients with financial problems solutions of rescheduling/ suspension of loan payments, part of the Credit Protection Program.

Depending on the loan purpose and the specific collateral required, individuals lending products of OTP Bank Romania are divided into two main categories:

- loans for real estate investments;
- consumer loans.

1 Loans for real estate investments

Mortgage loan for acquisition (ML). The purpose of this loan is the full or partial acquisition of houses or flats and also refinancing mortgage loans previously contracted from other banks. In 2018, the bank kept as loan currency only the RON, in line with market development which practically moved decisively to LCY lending and also considering the legal provisions. The minimum loan amount is 1,000 EUR (RON equivalent) and the maximum is 200,000 EUR (RON equivalent). The minimum granting period is of 6 months and the maximum 360 months. The collateral accepted is a 1st rank mortgage on the purchased property and property insurance assigned in favor of OTP Bank Romania.

The market new sales continued to be concentrated on "First home" loans while various big banks had also very competitive prices for mortgage loans in RON.

In this context, OTP Bank continued to promote the ML in RON launched in Q4 2014, having competitive features and smart pricing scheme, the best price being accessible only with full cross-sell, OTP Bank Romania's strategic objective being to maintain the competitiveness on the ML market.

2. Consumer loans

Personal loan without Mortgage (PL). This product is addressed to individual clients, Romanians or foreign citizens with Romanian residence and the purpose of this loan without collateral is to cover the general customers' needs. OTP Bank Romania accepts a wide variety of eligible incomes and it offers the loan only in RON. The offer of the personal loan includes different subtype of products (special pricing for personal loans for refinancing, personal loan with income transfer, etc.), with different pricing scheme in order to be in line with the market and to better cover the clients' needs. The maximum loan amount is:

- • 44.000 RON or
- • 66.000 RON/ 88.000 RON (until 30th of September 2018); 100.000 RON (from 1st of October 2018) for the applications that meet some predefined conditions.

OTP Bank Romania's strategic objective remained to attract higher quality customers, with income transfer, increased cross-sell potential and better risk figures. Also, considering the clients' expectations and the general orientation of the market toward digitalization, OBR continued to offer in 2018 also an e-loan product for individuals, suitable for the online channel that supports immediate reply from the bank to the clients' loan applying.

The offer of OTP Bank for consumer loans, with competitive features and favorable price conditions, was promoted through campaigns launched in the spring (23.04.2018 - 17.06.2018) and autumn of 2018 (01.10.2018 - 11.11.2018).

Personal Loan with Mortgage. This product is addressed to individual persons, Romanians or foreign citizens with Romanian residence, with the purpose to cover the general needs of the clients. The product is also available for refinancing any type of loans previously granted by other banks or by OTP Bank Romania.

The personal loan with mortgage can be

granted in RON, with a minimum loan amount of 4,200 RON and a maximum of 840,000 RON.

The accepted guarantees are a 1st rank mortgage on a property, an inferior mortgage rank is acceptable only if the superior ranks are in favor of OTP Bank Romania.

Overdraft. This product meets the universal expenses on short term – the clients benefit of all the advantages of a consumer loan into a revolving credit line with maximum flexibility.

Clients must monthly reimburse only the calculated interest of the used funds. The maximum limit for the overdraft facility is 20,000 RON and this product is addressed mainly to customers that receive their monthly salary in accounts opened at OTP Bank Romania.

Liabilities

Taking into consideration the market evolution, the strategy of the bank and the fact that customers' demands are continuously changing, OTP Bank Romania is periodically updating the pricing conditions and the characteristics of the liabilities products, in a constant effort to decrease the cost of funds and to improve the LCR ratios.

During 2018, one of the main strategic objectives, besides increasing the volume of saving products and retain the attracted volumes, was to readdress retail customers in a specific manner. Thus, in order to have a client-centric approach based on a specific number of factors like usage and attitude related to banking products, choice criteria, motivations, lifestyle, etc., OTP Bank launched in Q4 2017 (October) the modular structures of products and services. These modular structures consist in a different "base" for each identified client segment, to which will be attached one or more "options" consisting in multiple benefits for different products or services. Also, the amount of income transferred by segment each month and the number of debit card POS transactions will discount the price of the entire build-on component puzzle, resulting in a monthly variable cost for the client.

The liabilities products for individuals offered by OTP Bank Romania are divided into the following categories:

- term deposits;
- savings account;
- junior account;
- current account;
- payment account with basic payment features;
- OTP Express service;
- automatic saving tool service;
- modular structures of products and services.
-

Term deposits. The term deposits are saving products with fixed interest rates until maturity. The standard maturities offered by OTP Bank Romania for term deposits are of 1, 2, 3, 6, 9, 12, 18 and 24 months, but the bank also offers to its clients the possibility to have flexible maturities calculated in days, in the range of 30 to 365 days. The currencies used for deposit openings are RON, EUR, USD, HUF, GBP. There are no commissions for opening, closing or withdrawing, in case withdraws are made at the deposit maturity date (except the deposits with maturity less than one month and the term deposits with maturity of one month, for which the commission is levied for withdrawing from a current account, including at the deposit maturity).

The minimum amount for opening a deposit is RON/ USD/ EUR/ GBP 100 and HUF 25,000. For standard term deposits, clients have the possibility of automatic administration deposits, by choosing at the deposit opening moment one of the three options available for maturity:

- automatic deposit renewal with interest capitalization - the deposit will be automatically extended by the bank for an equal number of months with the initial option, using the interest rates valid on the renewal date of the deposit while the accumulated interest for the previous period will be added to the initial deposit;
- automatic deposit renewal without

capitalization - the deposit will be automatically extended by the bank for an equal number of months, with the initial option, using the interest rate valid on the renewal date of the deposit, while the accumulated interest for the previous period will be transferred into the current account;
- automatic deposit liquidation – the bank transfers the deposit amount and the appropriate interest in the client's current account.

OTP Bank Romania also offers different types of term deposits with special characteristics, such as higher interest rates than standard using the bonuses concept, or the flexible maturities chosen by clients:

- **Anniversary Term Deposit** – clients benefit of a bonus over the interest rate if they open a term deposit during their birthday month;
- **Term Deposit for Retirees** – based on the latest pension coupon or the bank account statement in original (not older than 2 months), a retiree can benefit of a bonus over the interest rate when opening a term deposit. This facility is available for clients just within Retirees Package;
- **OTPdirekt Term Deposits** – clients benefit of a bonus over the interest rate if they open a term deposit through the Internet Banking platform;
- **Term Deposit with Flexible Maturity** – this deposit offers the possibility for each client to choose his own maturity, depending on the established personal objectives;
- **Term Deposit with Progressive Interest Rate** – the interest rate progressively increases each month (for 6 or 12 months);
- **OTP Sincron Hybrid Term Deposit** – term deposit opened for 6, 9, 12, 18 or 24 months, in RON, EUR and USD, after a prior investment in next investment funds distributed by the Bank: OTP AvantisRO, OTP Obligatiuni, OTP Euro Bond, OTP ComodisRO, OTP Global Mix, OTP Dollar Bond, OTP Euro Premium Return, OTP Premium Return and OTP Real Estate and Construction. The OTP Sincron product allows deposits only according to the fund currency.

The year 2018 also marked the launch of promotional campaigns for non-standard term deposits. These are 4 months and 7 months term deposits in RON.

The promotional offer for the 7-months deposit in RON took place from 19.07.2018 to 29.11.2018 and was accompanied by a marketing campaign (online and radio).

The promotional offer for the 4 months deposit in RON took place from 19.11.2018 to 31.01.2019.

Savings Account is a hybrid product that combines the advantages of the high-interest rate of a term deposit product with the flexibility of the current account. The interest rate is fixed, calculated on a daily basis and registered in the saving account in the last working day of each month. There are four available currencies: RON, EUR, USD, and HUF. Customers are allowed to cash a deposit and withdraw without restrictions, to make inter/ intra-banking transfers, to transfer funds only to the owned current accounts opened at OTP Bank Romania and to automatically reimburse credit installments from the savings accounts. The savings account can be also accessed through a debit card issued in the name of the account's holder or his/ her empowered.

Junior Account is a savings account opened on the child's name with additional attached facilities. It is available in RON, EUR, USD, and HUF. The interest rate is fixed and paid in tranches. With a larger amount, the client receives a higher interest, thus having the advantage of obtaining a higher interest rate compared to the current account.

Types of Junior accounts:
- Junior Start, designed for children under 14 years;
- Junior Plus, created for teenagers between 14 and 18 years. The client has the possibility to also use a Junior Plus debit card;

- Junior Max, created for youth aged between 18 and 25 years. Clients also have the possibility to use a Junior Max debit card.

Current Account. On amounts placed in the current account, clients receive the sight deposits interest rate. A current account can be opened in RON, EUR, USD, HUF, GBP or CHF. The customer can attach the following services to the current accounts: Overdraft, Debit Card, Direct Debit, OTPdirekt – Internet Banking, SmartBank, Contact Center and SMS Alerts.

Payment account with basic payment features – an account held in the name of one or more consumers which is used for payment transactions.
For the payment account with basic payment features, the target market is formed by individual clients that do not own a payment account (including a payment account with basic features) at any banking institution from Romania (including OTP Bank Romania SA) or the clients which makes the proof that they were notified by a financial institution regarding the current accounts closure. The clients who can open a payment account with basic payment features are, as per the legislation in force, split into:

- **Financially vulnerable consumers** - a consumer having a monthly income (or, during the last 6 months) lower than the equivalent of 60% of the national average gross wage as forecasted each year by the National Institute of Prognosis for the following year;
- **Non-vulnerable consumer** - consumers that do not fall in the above-mentioned category.

OTP Express service allows individuals and legal entities to make transfers (EUR, USD and HUF) from the accounts opened at OTP Bank Romania to OTP Bank Nyrt clients or to any bank from OTP Group, in a very short time and at advantageous costs. There is no minimum amount for a transfer through OTP Express. Cut-off time for accept payments in territorial units through OTP Express service is: for normal payment, 16:00 (the beneficiary account is credited next day); for urgent payment, 11:00 (the beneficiary account is credited same day).

Automatic Saving Tool service is a flexible service, which allows customers by means of a contract, to set a periodical transfer of a certain amount of money into a saving account, term deposits or open-end funds managed by OTP Asset Management Romania SAI S.A. Thus, they don't need to come to the bank each time for doing such transactions. In this way, clients can start developing a portfolio of savings and/ or investment products, with minimum effort, in just a few simple steps. The service is available for RON, USD and EUR. The periodicity of the automatic transfers is very flexible, so the clients may choose a certain frequency (expressed in days or months) for each product selected in the automatic savings tool (junior accounts, savings accounts, term deposits or open-end funds managed by OTP Asset Management Romania SAI S.A.).

Modular structures of products and services represent a flexible package that consists in a base of products and services (a predefined number of products/services, eg: debit card, OTPdirekt, current account) and at least one option (usually represented by benefits for certain products /services) chosen by the customer. Customers are allowed to activate options that suit on their needs, from the ones dedicated to the segment in which they are included, and use them for the amount of time they chose. This way, clients are encouraged to pay for usage rather than buy a number of products which they do not fully use.

SMALL AND MEDIUM ENTERPRISES

The SME business line maintained the segmentation approach of the clients consolidated in the previous years, by targeting and managing mainly legal entity clients with an annual business turnover of a maximum 5 million EURO, including private entrepreneurs. **In order to support this segment of clients, our efforts were focused both on developing new dedicated products and services, recalibrating the existing ones, as well as by providing a high level of professional experience in the Client – Bank partnership.**

In 2018, **the SME business line recorded an increase of 33% in volumes of new loans sold,** maintaining at the same time the complex approach of the cross-sell and up-sell methods.

38% out of the total revenues generated by the transactional activity of the Bank's clients, was generated by the SMEs, confirming the strategic importance of this segment.

Also, in 2018 we continued to align the products and services of OTP Bank Romania S.A. dedicated to SME clients and private entrepreneurs to the general digitalization trends in order to provide the fastest and most appropriate financing and operational solutions through a various range of alternative channels. The clients gained access to products and services meant to respond to their ever-changing needs and expectations.

Therefore, our continuous endeavor throughout 2018 was aimed at implementing innovative solutions in the digitalization area, as well as developing new products, recalibrating the existing ones dedicated to each client segment, in order to build long-term partnerships with our clients, „Home Bank" type. In that respect:

- **We launched a competitive campaign, between the 2nd of July and the 31st of August 2018, the best offer on the market, when it was launched, dedicated to commercial customers for contracting the OTP POS/E-commerce Package, by offering a 50% discount applicable to the processing POS/E-commerce transactions fee, compared to the standard conditions. Moreover, the clients from the E-commerce segment benefitted for a free of charge period of three months for the OTP POS package of products and services;**
- We improved the Smart Business package of products and services with the Exclusive option dedicated to legal entities clients as well as the Premium Package dedicated to currency exchange offices, by including a competitive benefit, respectively free of charge cash deposits (RON/currency) at OTP Bank Romania S.A. counters;
- **We recalibrated the package of products and services dedicated to the start-up clients, by offering the start-up companies, with less than 12 months activity, the Start-UP HERO package, with ZERO costs in the first 12 months, with multiple benefits, considering the commitment of OTP Bank Romania to support the entrepreneurs throughout their development experience, building long term partnerships and helping them grow their businesses.**

  For this package, the monthly subscription fee is 0 in the first 12 months and the clients benefit from multiple advantages, such as zero issue and management fee for the debit card; zero monthly management fee

for all current accounts, regardless the currency; free of charge Internet Banking, SmartBank and Contact Center for one user; zero fee for the inter-banking payment orders in lei, by Internet Banking, regardless of the value (except for the BNR/Transfond fees); zero fee for intra-banking payment orders in lei, by Internet Banking; zero fee for cash deposits (RON/foreign currency); etc.

- We recalibrated the Quick loan for working capital, by adding a revolving component (besides the non-revolving), in order to meet our clients' requirements, who can access this products based on a simple and fast flow, with no explanatory documents requested, without real estate collaterals, with standard eligibility conditions and quick analysis;
- Moreover, in accordance with the mission assumed for a continuous digitalization process, we focused on improving the customer experience and we recalibrated the online lending flow, straight from the Internet Banking platform of the Bank. This way the clients can gain access to the „Quick loan for working capital", either through the revolving functionality or through repayment in installments, depending on the specific activity of each client, besides the other products already implemented on this flow.

  The uniqueness of this online solution consists in the fact that, by using this flow, the clients can obtain an instant preliminary result, just after filling in some concise information, based the last annual balance sheet, uploaded by the client.

Additionally, with the purpose of supporting the clients migration towards the digital environment, starting with 2018 we began the development of a new application that allows the SME clients, depending on their annual business turnover (maximum 5.000.000 euro), to apply online, safely and quickly for a dedicated lending product, specific to their needs, for working capital, as well as for investments, by accessing a dedicated landing page, filling-in minimal information and uploading the last annual balance sheet.

We aim therefore, to extend the online lending flow, as part of the digitalization project started in 2016, **directly from the Internet Banking platform of the bank, by granting the opportunity to the clients who did not contract that service to access an online financing product, even by extending the specific range of products which can be contracted online, based on a standardized flow.**

Also in 2018, besides the specific projects of the SME client category, agriculture continued to occupy a strategic position of the OTP Bank Romania portfolio and in this respect we recalibrated the Loan for double pre-financing of the APIA SAPS subsidies, by financing in advance up to 160% (representing the double of the APIA SAPS subsidies), respectively pre-financing the subsidies for two years, only based on the proof of evidence from the year of the loan application. This product is still unique on the banking market, and has been updated in order to make it even more attractive for

the target customer segment, to sustain the development strategy of the agribusiness segment within OTP Bank Romania.
By continuing to offer a complete range of solutions through simple and efficient financing products, as well as by specialty consultancy, OTP Bank Romania S.A. registered an increase of 112% of the volume of Agri new loans, granted in 2018 compared to the previous year.

The clients registered in the SME category continue to represent a strategic segment for OTP Bank Romania S.A., and our efforts were focused on supporting this segment through continuous development and improvement of the products and services offered, according to the market requirements, being consistent in the support endeavor of the business environment and entrepreneurship.

PRIVATE BANKING

OTP Group has a tradition of more than 20 years in the Private Banking field. The service was first launched in Hungary, back in 1995. Since that moment, this business segment has permanently improved and the success of this approach is confirmed by continuous and sustained growth in both the number of clients and assets in management.

The international recognition highlights our performance: OTP Private Banking was nominated once again as the best private bank in Hungary, in the Global Private Banking Awards, an event organized by the prestigious publications The Banker and Professional Wealth Management, members of the Financial Times Group. This year, OTP Private Banking received the "Best Private Bank in Hungary" award for the sixth consecutive time.

Our local business benefits from the OTP Group expertise in the Private Banking field. The Private Banking activity in OTP Bank Romania was officially launched in February 2008, as a personalized service offered to high net-worth clients. The main objective of this activity is to increase the added value and exclusivity of the offered products and services, by creating a complex package, carefully tailored and adapted to the characteristics of each client.

In 2015, OTP Bank Romania received the "Bank of the Year on Private Banking segment" award, during a Gala held by Piața Financiară publication. The recognition took into consideration our local business successful formula: combining the most appropriate investment and saving solutions, in accordance with the clients' financial profiles. The award proves that our Private Banking strategy was successful in implementing innovative solutions and tackling new challenges.

Currently, our Private Banking service is addressed to customers who invest more than 50,000 EUR in products offered by OTP Bank Romania or cash-in a minimum monthly income of 2,000 EUR in a current account opened at OTP Bank Romania.

An important aspect for the clients included in the Private Banking category is represented by the personalized relationship between them and the dedicated counselor. In addition, clients are members of a group that benefits from products and services offered in accordance with their profiles, objectives, needs and risk tolerance. All these advantages provide them a special statute.

The Private Banking services of OTP Bank Romania were initially offered through a singular banking unit. However, in order to offer the Private Banking package to the elite clients countrywide, regardless of their location, we extended these services to all territorial units.

Starting with 2013, the Private Banking strategy was based on financial advisory, in accordance with each clients' individual profile. Thus, depending on the clients' financial needs and objectives, we were able to offer them adapted solutions, from extra safe savings to riskier instruments.

In the last year, the number of Private Banking clients increased by 22%, while the total assets under management registered an increase of approximately 13%. Consequently, there are good premises for further development and sustainable growth in the Private Banking segment.

CORPORATE BANKING

Corporate Banking is an important contributor to the bank's performance. In 2018, strong and consistent profitability has been driven by the stable increase in our lending business and by the growth of fee income.

Corporate Banking provides to the customers' wide-ranging financial services, using the expertise of different departments and offering tailor-made solutions in order to cover all specific needs, and offering support in usage, with the specific aim to increase product usage.

Corporate Banking clientele consists in the upper mid and large corporate (both local and multinational, companies with good financial standing, cash-rich companies), with high up-sell and cross-sell potential, and selectively project finance deals (residential projects), transactional companies.

For the Corporate Lending area, the appealing sectors are agriculture, manufacturing, trading, residential projects, syndicated deals and club loans for the purpose of profitability and market visibility, emphasizing the role of importer-exporter companies.

Main highlights for 2018:

- Attracting customers by consolidating a fair and transparent approach, the basis for healthy, sustainable organic growth.
- Increasing the lending activity, taking into consideration the main interest sectors such as manufacturing, trading, residential projects, importer-exporter companies:
  - o Increase in foreign currency lending to ensure revenue growth (through simple and derived products);
  - o The maturity of our business relationships allowed us to actively engage in the most relevant transactions in the market by selectively participating in syndicated deals and club loans for the purpose of profitability and market visibility;
  - o Attracting new customers by using credit, along with cash management products;
  - o Development of lending activity in the field of agriculture, focusing on integrators, producers, traders;
  - o Excellent performance on the commercial factoring activity through a large volume financing and the number of clients during the year.
  - o Close monitoring of the loan portfolio for maintaining its good quality.
- Reaching the profitability target:
  - o Using the ROA principle for designing the offers;
  - o Continuously monitoring the client's profitability and banking competition;
  - o Attracting transactional customers;
  - o Up-sell and cross-sell with the existing portfolio of corporate customers, based on a holistic approach towards the ecosystems created around corporate clients, addressing all the stakeholders: suppliers, clients, employees, shareholders;
  - o Cash management tailor-made approach for both lending and non-lending customers;
  - o Besides the existing financial services offered through our active Commercial Factoring team, we developed a new product – Reverse factoring for sustainable financing.
- Improving the organizational structure with the aim of increasing efficiency within the activity in the support area. The Corporate Officer concept was introduced: a dedicated corporate clients' operational desk located in the branches (Bucharest and around the country), with the aim of increasing the quality and rapidity of the services for corporate clients;
- Actively participating in the implementation of the projects: MIFID, GDPR, PSD 2, IFRS 9 considering the legislative changes;

- Reviewing the entire portfolio of cash management products to align with the new legislative and market requirements;
- Launching the new product Investment Service Hedge Limit (ISH);
- The most complex and utilized credit product by corporate clients Multicurrency, multi-option, multi-borrower ceiling was redesigned in order to cover all customers' needs;
- A newly designed paper case dedicated to Corporate clients, promoting an avant-garde concept;
- Digitalization, increase the usage of Internet Banking services for corporate customers;
- Active involvement within agribusiness projects: Rural Development Plan, EAFRD (European Agricultural Fund for Rural Development).

In 2018, lending, payments and cash management grew, and we expect this to continue as we constantly supported the business needs of our corporate clients.

In 2018, we continue our aim for:

- Consolidating clients' trust;
- Successfully innovating and developing products and services that meet customers' needs;
- Offering suitable products and services in an accessible and personalized way, ensuring an excellent customer experience;
- Providing superior services to help customers and clients grow and protect business wealth in a sustainable way.

THE TREASURY

The year 2018 has seen very little volatility in the local Foreign Exchange market. The EUR-RON exchange rate started at 4.6597 and ended at 4.6639 (less than 0.1% devaluation of RON) despite political tensions across the year.

On a macroeconomic level, in 2018 we have witnessed a 4.10% GDP growth. However, inflation Jan-Dec 2018 was 4.60% marking a post-crisis peak. The current account deficits widened further in 2018. National Bank tightened its accommodative monetary policy, being confronted with a rapid pace of growth in wages and unit labor costs. The conduct of monetary policy is increasingly constrained by fiscal policy measures.

2018 has been a very good one for the Treasury. Results were above target by 12% for the overall Treasury. The main driver of the growth in Treasury revenues has been the Sales activity. Revenues in Sales represented the largest part of the total Treasury revenues in 2018, marking a 21% over-realization versus Sales budget.
Major contributors to this performance were: a pro-active sale approach, more active sales of the regional treasury team and better cooperation with the lines of business.

Total Sales Foreign Exchange volumes in 2018 increased by 20% versus 2017, compensating for a drop of 7% in the average margins for the same period.

Trading activity continued on both Foreign Exchange and Money Markets / Fixed Income with Foreign Exchange Desk nearly reaching the target.

2018 has been the first year of MiFID II in our bank. After the first period of adjustments, we started the activity on derivatives under the new legal framework.

The local government bonds market was characterized by high volatility throughout 2018. Yields rose sharply until summer (+100 base points), catching up with persistently high inflation. NBR's liquidity sterilizations measures were aimed at tempering inflation. In the second part of the year, the yields reversed almost entirely, on expectations that inflation would eventually move back inside the NBR s target range.

OTP ROMANIA SUBSIDIARIES

OTP Asset Management Romania SAI SA

OTP Asset Management Romania is operational since April 2008, being positioned on the local market as an innovative, dynamic performance oriented and customer-centered player. The company aims to satisfy its clients' needs, offering high-quality products and best financial advisory services. Ranked the 6th player on the local market, with assets under management exceeding RON 547 million, the company is serving a number of 7,522 individual and institutional clients. Through the products offered, clients can diversify their investment portfolio in a broad range of asset classes, such: equities, bonds, T-bills, deposits, capturing the opportunities from the financial markets.

Currently, OTP Asset Management Romania manages ten mutual investment funds, as follows:

- OTP AvantisRO (equity, RON);
- OTP Expert (equity, RON)
- OTP Obligatiuni (bond, RON);
- OTP Dollar Bond (bond, USD);
- OTP Euro Bond (bond, EUR);
- OTP Comodis RO (money market instruments, RON);
- OTP Global Mix (balanced, flexible, RON);
- OTP Real Estate & Construction (balanced, RON)
- OTP Premium Return (Absolute-Return, RON);
- OTP Euro Premium Return (Absolute-Return, EUR).

In 2018, OTP Asset Management Romania excelled to transform professionalism into performance and social responsibility. Due to its dynamic and innovative approach, customer-centric actions, as well as its constant perseverance of its highly skilled professionals' team, the company continued its development path.

OTP Asset Management Romania launched in the autumn of 2018 the first real estate fund in Romania, OTP Real Estate & Construction. The Fund has exposure to the global real estate sector and aims to distribute quarterly dividends to its investors. The company was also awarded for the launch of the most innovative fund in 2018.

An important pillar of the company's strategy is the active involvement in projects dedicated to raising the level of financial literacy. Thus, we developed partnerships with multiple parties, such: Bucharest Stock Exchange, OK Center - Right to Education Foundation, Financial Supervision Authority, etc. to raise awareness towards long term investments through mutual funds. ASF Romania has awarded the company, within EduFin Gala, the "Special Award for Financial Education" for the involvement in a vast range of financial education initiatives and partnerships in recent years (2018).
The company grew constantly, as at the center of its preoccupation stands the ideas generation on how to better serve the customers.

Looking further, the company intends to complete the portfolio of funds, aiming to bring to its customers, a varied range of products, well diversified in terms of geography and currency, seeking to deliver solid performances to meet customers' expectations and continuously changing needs.

OTP Consulting

OTP Consulting Romania SRL was established in 2007 by OTP Bank Romania and the Hungarian consultancy company OTP Hungaro Project. Since then, the company went through an important and continuous development and due to its flexible approach and an extensive set of skills it provides clients with the high-quality business value they need.

The wide range of services provided by the company cover financial advisory services, local development consultancy and business and treasury consulting, offering complex development solutions for companies and local authorities, including trainings and technical assistance, support in identifying new projects and financing sources for these, consultancy services in drawing up different projects, as well as project management services.

In collaboration with local authorities, OTP Consulting Romania implemented more than 20 projects with the theme of environmental protection, especially in the area of water and wastewater and other wastes.

The quality of its consultants is the cornerstone of the company`s ability to serve its clients, leading the company also in 2018 to a large number of successful projects.

Also, in partnership with NGOs (LAM Foundation and AGROSIC) OTP Consulting Romania developed a truly innovative concept for small manufacturers in order to develop their food industry marketing, brand share, to sell products online and through a special weekly market.

In addition, small manufacturers receive consulting services and training to acquire the necessary knowledge to hit the market.

OTP Consulting Romania is a partner of EBRD through the BAS Business Advisory Service program.

The Project, prepared by OTP Consulting Romania for an agriculture company, was promoted as BEST PRACTICE by EBRD.

In 2015, one of the most important projects was "Entrepreneur – Successful business ideas and development of entrepreneurship in the regions Bucharest-Ilfov and South-West Oltenia", financed by the Human Resources Sectorial Operational Program, with a Total budget of 1.2 million Euro.

In 10 months of its implementation, 400 people received entrepreneurial training, 40 start-ups were founded and given a grant of 10.000 EUR each and more than 80 workplaces for young people were created. During the project's implementation and after, all entrepreneurs received business development consulting.

In present, OTP Consulting is involved in 3 projects with European funding in a partnership with the Chamber of Commerce of Romania, with a total value of over 10 million euros.

- „FIA" Project „Become Entrepreneur at Home! Invest in your future!" - In partnership with the Chamber of Commerce of Romania and the League of Romanian Students Abroad (LSRS), with a total budget of 1.7 million Euro, aims to: inform more than 10,000 Romanians in the Diaspora about opportunities in the field of entrepreneurship, to develop an entrepreneurial training program for at least 220 Romanian trainees in the diaspora; to select for funding of max. 40.000 Euro and monitor a number of 22 best business plans. The aim of the project is to facilitate/support the return of Romanian people from the diaspora at home.

  During the last year, 245 people were registered, 232 received entrepreneurial training and 22 business plans were selected for funding.
- The Sustainable Entrepreneurship Project in the Center Region, launched in partnership with the Chamber of Commerce of Romania, aims to support entrepreneurial initiatives to develop the economic environment and increase employment in the Center region of Romania. The project is aimed at Romanian citizens aged over 18, who live in rural or urban areas in Harghita, Mures, Covasna, Brasov, Sibiu, and Alba, who want to set up a non-agricultural business in the urban area.

  With a total budget of EUR 5 million, the 36 months project is divided as follows: entrepreneurial training programs for 740 young people (12 months) that will conclude with the selection of 89 business plans. In the second stage (18 months), the 89 entrepreneurs will receive business development support and grants of up to 34,200 euros for each new business.

  Realized objectives: 879 people were registered, they all received entrepreneurial training concluded with 91 business plans selected for funding.
- SMART START UP project. Innovative and Sustainable Entrepreneurship in the South Muntenia Region is launched in partnership with the Chamber of Commerce of Romania, aims to support

entrepreneurial initiatives to develop the economic environment and increase employment in the South Muntenia region. The project is dedicated to young people aged over 18 from Arges, Dâmbovița, Prahova, Teleorman, Călărași, Ialomița and Giurgiu who want to set up a non-agricultural business in the urban area.

The main objective: 570 people formed - ANC accredited entrepreneurship training; selecting, funding and monitoring a number of 72 businesses.

With a total budget of EUR 4 million, the 36 months' project is divided as follows: entrepreneurial training programs for 570 young people (12 months) that will conclude with the selection of 72 business plans. In the second stage (18 months), the 72 entrepreneurs will receive advice and support for business development and grants of up to 34,000 euros for each new business.

During 2018, the project attained accomplished all proposed objectives regarding the registration and trainee of 570 people. 72 business plans were selected for funding.

OTP Consulting is the Lead Partner in the „FIA" Project „Become Entrepreneur at Home! Invest in your future!" and it is involved with its partners at all stages of the project implementation.

In 2018 the company signed new consulting contracts for project elaboration and management under various financing programs:

- Investments in agricultural holdings
- Agriculture and rural development
- Investments related to cultural heritage protection
- Urban development
- Development strategies and economic analysis

For OTP Consulting Romania it is very important to support innovative start-ups and entrepreneurship.

OTP Advisors

OTP Advisors S.R.L. started its activity in July 2007, under the name of OTP Broker Pensii Private S.R.L. At that moment, OTP Broker Pensii Private S.R.L. was managing the contracts for the private pension fund that OTP Bank Romania S.A. used to own. Starting July 2008, the activity was extended to promoting and distributing banking products and services offered by OTP Bank Romania S.A. The name of the company was changed to OTP Broker de Intermedieri Financiare S.R.L.

In 2012, the company went through a rebranding process and become OTP Advisors S.R.L., a team of financial advisors focused on providing first-class tailor-made financial services for Romania private individuals. The sole shareholders of OTP Advisors S.R.L. is OTP Bank Romania S.A. (100%), member of OTP Group.

In 2018, OTP Advisors S.R.L. continued its development and diversifying of all kinds of selling products of OTP Bank Romania S.A. strategy (mortgage loans and personal loans with a mortgage, credit packages and IMM).

OTP Advisors S.R.L. developed a national network covering all the main cities of the country: București, Ploiești, Pitești, Cluj, Târgu Mureș, Brașov, Timișoara, Oradea, Sibiu, Iași, Bacău, Constanța, Arad, Craiova.

By December 31st, 2018, OTP Advisors S.R.L. sales force generated a sales volume of the total sales of OTP Bank Romania S.A., on average, as follows: 27% of personal unsecured loans, 19% of mortgages and personal loans with a mortgage and 53% of credit cards.

OTP Leasing Romania

OTP Leasing is a financial leasing company providing access to passenger cars, commercial vehicles, and equipment for legal entities. Its business objectives are geared around a strategy aiming to increase the market quota, through diversifying the product portfolio and increasing the volume of funded goods, including through stronger support for the agricultural sector and SMEs.

In 2018, OTP Leasing focused mainly on optimizing the solutions it offers to legal entities, increasing its customer portfolio and maintaining a positive financial trend. At the end of the year, the business objectives were achieved: the portfolio valued almost 280 million RON, out of which the value for new contracts was 164 million RON. Over the past two years, the company has steadily increased its portfolio, doubling this volume both in 2017 and 2018, compared to previous years.

In what regards the type of financed goods, most of the requests were for new buses, second-hand cars, and light commercial vehicles. There was also a slight increase in the equipment segment, especially agricultural and industrial machinery.

OTP Leasing Romania's portfolio includes companies that operate in industries such as telecom, services, agricultural production, medical, IT, the small and medium-sized business segment being the best represented.

In addition to financial leasing offers, the team focused on process simplification, especially through digitization projects. The company has launched a successful online 24/7 Pre-Approval Online App and the MyLeasing platform, designed for the existing clients. The app provides access, anytime and anywhere, to invoices or necessary documentation for leaving the country or for vehicle damage.

Since 2018, the company started investing in youth management education along with the Right to Education Foundation and the OK Center. The program is called **CEO for 1 day** and is dedicated to young people aged 18-22. **CEO for 1 day** is meant to give beginners a unique learning experience. The first edition consisted of a three-day learning boot camp, and for the winner of the program, 1 day in the role of the company's CEO, job shadowing Toni Tătaru, the OTP Leasing CEO. The program is structured to complement the curious and active spirit of young people and provide practical tools for their future careers. The boot camp workshops focused on design thinking, business strategy, futurism, leadership, personal branding, assertive communication.

The company works with clients from all Romania's regions, Bucharest, Iași, Cluj, Brașov, and Timișoara being the dominant regions.

OTP Factoring SRL

OTP Factoring was founded in 2009, as a member of OTP Bank Group, and has as its main activity the debt management of the receivables' portfolios acquired from different Banking and Non-Banking Financial Institutions.

Starting with 2012, the company became one of the best performing on the Romanian market in the field of Debt Management. They are present in two locations: Bucharest and Brasov.

OTP Factoring's mission is to be helpful toward their clients and offer them support in solving their financial issues. Therefore, they treat each case individually, and thus are to provide the best solutions, even in the case of a forced foreclosure.

OTP Factoring is also a member of the Association for Management of Trade Receivables (AMCC), whose purpose is to promote a healthy business environment and to protect the management activities of the receivables' trade in specific ways.

With help from OTP Factoring, OTP Group's financial market is growing.

Using positive, reasonable and realistic collection techniques, through commitment solutions unique in Romania, the clients are helped to financially rehabilitate.

Also, professional legal solutions are offered, which ensures the settlement of debts by clients.

ACTIVITIES OF OTHER FOREIGN SUBSIDIARIES OF OTP GROUP

IFRS reports of the main foreign subsidiaries of OTP Group

According to the English version summary of the 2018 Business Report of the Board of Directors

Main financial indicators of OTP Bank Romania SA

Main components of P&L account in HUF mn	2017	2018	Y-o-Y
After tax profit without the effect of adjustments	3,036	3,850	27%
Income tax	-916	-1,051	15%
Profit before income tax	3,952	4,902	24%
Operating profit	9,346	10,585	13%
Total income	27,138	30,759	13%
Net interest income	19,779	23,410	18%
Net fees and commissions	3,064	3,563	16%
Other net non-interest income	4,295	3,786	-12%
Operating expenses	-17,792	-20,174	13%
Total provisions	-5,394	-5,683	5%
Provision for impairment on loan and placement losses	-5,062	-4,794	-5%
Other provision	-332	-890	168%
Main components of balance sheet closing balances in HUF mn	**2017**	**2018**	**Y-o-Y**
Total assets	624,060	771,968	24%
Gross customer loans	535,140	577,565	8%
Gross customer loans (FX-adjusted)	557,425	577,565	4%
Retail loans	394,082	398,007	1%
Corporate loans	163,342	179,558	10%
Allowances for possible loan losses	-56,909	-35,444	-38%
Allowances for possible loan losses (FX-adjusted)	-60,032	-35,444	-41%
Deposits from customers	337,691	434,937	29%
Deposits from customer (FX-adjusted)	350,815	434,937	24%
Retail deposits	262,980	331,920	26%
Corporate deposits	87,835	103,017	17%
Liabilities to credit institutions	196,377	232,391	18%
Total shareholders' equity	53,481	60,047	12%
Loan Quality	**2017**	**2018**	**Y-o-Y**
Stage 3 loan volume under IFRS 9 (in HUF million)		51,771	
Stage 3 loans under IFRS 9/gross customer loans (%)		9,0%	
Provision for impairment on loan and placement losses/average gross loans (%)	0,9%	0,9%	-0,1%p
90+ days past due loan volume (in HUF million)	72,133	29,583	-59,0%
90+ days past due loans/gross customer loans (%)	13,5%	5,1%	-8,4%p
Total provisions/90+ days past due loans (%)	78,9%	119,8%	40,9%p
Performance Indicators (%)	**2017**	**2018**	**Y-o-Y**
ROA	0,5%	0,6%	0,1%p
ROE	6,8%	7,5%	0,7%p
Total income margin	4,49%	4,46%	-0,03%p
Net interest margin	3,27%	3,39%	0,12%p
Cost/income ratio	65,6%	65,6%	0,0%p
Net loans to deposits (FX-adjusted)	142%	125%	-17%p
FX rates (in HUF)	**2017**	**2018**	**Y-o-Y**
HUF/RON (closing)	66,6	69,0	4%
HUF/RON (average)	67,69	68,51	1%

Main financial indicators of CKB, MONTENEGRO (CRNOGORSKA KOMERCIJALNA BANKA)

Main components of P&L account in HUF mn	**2017**	**2018**	**Y-o-Y**
After tax profit w/o dividends and net cash transfer	-155	2,214	
Income tax	-11	-326	
Profit before income tax	-144	2,540	
Operating profit	1,802	2,605	45%
Total income	9,709	10,729	11%
Net interest income	6,543	7,529	15%
Net fees and commissions	3,319	3,227	-3%
Other net non-interest income	-153	-27	-83%
Operating expenses	-7,907	-8,125	3%
Total provisions	-1,947	-65	-97%
Provisions from impairment on loan and placement losses	-864	-46	-95%
Other provision	-1,083	-19	-98%
Main components of balance sheet closing balances in HUF mn	**2017**	**2018**	**YTD**
Total assets	197,590	224,892	14%
Gross customer loans	138,485	157,043	13%
Gross customer loans (FX-adjusted)	143,562	157,043	9%
Retail loans	75,662	73,027	-3%
Corporate loans	67,900	83,983	24%
Car financing loans	0	33	-100%
Allowances for possible loan losses	-38,899	-28,265	-27%
Allowances for possible loan losses (FX-adjusted)	-40,325	-28,265	-30%
Deposits from customers	152,316	175,740	15%
Deposits from customer (FX-adjusted)	158,265	175,740	11%
Retail deposits	121,092	131,227	8%
Corporate deposits	37,173	44,513	20%
Liabilities to credit institutions	17,962	2,364	-87%
Total shareholders' equity	21,127	38,637	83%
Loan Quality	**2017**	**2018**	**Y-o-Y**
Stage 3 loan volume under IFRS 9 (in HUF million)	-	33,096	
Stage 3 loans under IFRS 9/gross customer loans (%)	-	21,1%	
Provision for impairment on loan and placement losses/average gross loans (%)	0,6%	0,0%	-0,6%p
90+ days past due loan volume (in HUF million)	43,395	27,993	-35,5%
90+ days past due loans/gross customer loans (%)	31,34%	17,82%	-13,5%p
Total provisions/90+ days past due loans (%)	89,6%	101,0%	11,3%p
Performance Indicators (%)	**2017**	**2018**	**Y-o-Y**
ROA	-0,1%	1,1%	1,1%p
ROE	-0,7%	7,3%	8,0%p
Total income margin	5,02%	5,09%	0,07%p
Net interest margin	3,38%	3,57%	0,19%p
Cost/income ratio	81,4%	75,7%	-5,7%p
Net loans to deposits (FX-adjusted)	65%	73%	8%p
FX rates (in HUF)	**2017**	**2018**	**Y-o-Y**
HUF/EUR (closing)	310,1	321,5	4%
HUF/EUR (average)	309,2	318,9	3%

Main financial indicators of OTP Bank Russia

Main components of P&L account in HUF mn	2017	2018	Y-o-Y
After tax profit w/o dividends and net cash transfer	27,771	16,420	-41%
Income tax	-7,514	-4,614	-39%
Profit before income tax	35,285	21,034	-40%
Operating profit	72,015	68,878	-4%
Total income	125,290	129,899	4%
Net interest income	101,326	102,489	1%
Net fees and commissions	22,975	26,766	17%
Other net non-interest income	989	644	-35%
Operating expenses	-53,276	-61,021	15%
Total provisions	-36,730	-47,844	30%
Provisions from impairment on loan and placement losses	-35,880	-42,204	18%
Other provision	-850	-5,640	564%
Main components of balance sheet closing balances in HUF mn	**2017**	**2018**	**YTD**
Total assets	638,031	707,593	11%
Gross customer loans	531,280	610,355	15%
Gross customer loans (FX-adjusted)	482,392	610,355	27%
Retail loans	430,413	544,519	27%
Corporate loans	51,871	65,733	27%
Car financing loans	-112,158	-126,655	13%
Allowances for possible loan losses	-102,215	-126,655	24%
Allowances for possible loan losses (FX-adjusted)	353,306	379,911	8%
Deposits from customers	326,031	379,911	17%
Deposits from customer (FX-adjusted)	261,547	301,887	15%
Retail deposits	64,484	78,025	21%
Corporate deposits	100,404	120,156	20%
Liabilities to credit institutions	22,780	22,522	-1%
Total shareholders' equity	135,213	147,999	9%
Loan Quality	**2017**	**2018**	**Y-o-Y**
Stage 3 loan volume under IFRS 9 (in HUF million)	-	84,469	
Stage 3 loans under IFRS 9/gross customer loans (%)	-	13,8%	
Provision for impairment on loan and placement losses/average gross loans (%)	7,35%	7,39%	0,04%p
90+ days past due loan volume (in HUF million)	83,742	81,995	-2%
90+ days past due loans/gross customer loans (%)	15,8%	13,4%	-2,3%p
Total provisions/90+ days past due loans (%)	133,9%	154,5%	20,5%p
Performance Indicators (%)	**2017**	**2018**	**Y-o-Y**
ROA	4,6%	2,4%	-2,2%p
ROE	21,0%	10,9%	-10,1%p
Total income margin	20,91%	19,28%	-1,63%p
Net interest margin	16,91%	15,21%	-1,70%p
Cost/income ratio	42,5%	47,0%	4,5%p
Net loans to deposits (FX-adjusted)	117%	127%	11%p
FX rates (in HUF)	**2017**	**2018**	**Y-o-Y**
HUF/RUB (closing)	4,5	4,1	-10%
HUF/RUB (average)	4,7	4,3	-8%

Main financial indicators of DSK Group

Main components of P&L account in HUF mn	2017	2018	Y-o-Y
After tax profit without the effect of adjustments	47,122	47,293	0%
Income tax	-4,920	-4,308	-12%
Profit before income tax	52,042	51,601	-1%
Operating profit	61,461	57,096	-7%
Total income	108,290	107,817	0%
Net interest income	72,257	69,979	-3%
Net fees and commissions	27,714	30,435	10%
Other net non-interest income	8,319	7,403	-11%
Operating expenses	-46,830	-50,720	8%
Total provisions	-9,419	-5,495	-42%
Provisions from impairment on loan and placement losses	-3,571	-9,532	167%
Other provision	-5,848	4,038	-169%
Main components of balance sheet closing balances in HUF mn	**2017**	**2018**	**YTD**
Total assets	1,925,740	2,381,275	24%
Gross customer loans	1,184,871	1,343,729	13%
Gross customer loans (FX-adjusted)	1,228,363	1,343,729	9%
Retail loans	857,693	932,756	9%
Corporate loans	370,671	410,973	11%
Allowances for possible loan losses	-109,137	-111,369	2%
Allowances for possible loan losses (FX-adjusted)	-113,141	-111,369	-2%
Deposits from customers	1,626,924	1,890,897	16%
Deposits from customer (FX-adjusted)	1,690,207	1,890,897	12%
Retail deposits	1,508,881	1,654,613	10%
Corporate deposits	181,325	236,283	30%
Liabilities to credit institutions	4,802	3,144	-35%
Total shareholders' equity	250,296	453,891	81%
Loan Quality	**2017**	**2018**	**Y-o-Y**
Stage 3 loan volume under IFRS 9 (in HUF million)	-	141,513	
Stage 3 loans under IFRS 9/gross customer loans (%)	-	10,5%	
Provision for impairment on loan and placement losses/average gross loans (%)	0,31%	0,74%	0,44%p
90+ days past due loan volume (in HUF million)	93,936	89,986	-4%
90+ days past due loans/gross customer loans (%)	7,9%	6,7%	-1,2%p
Total provisions/90+ days past due loans (%)	116,2%	123,8%	7,6%p
Performance Indicators (%)	**2017**	**2018**	**Y-o-Y**
ROA	2,5%	2,3%	-0,2%p
ROE	20,0%	18,4%	-1,6%p
Total income margin	5,77%	5,20%	-0,58%p
Net interest margin	3,85%	3,37%	-0,48%p
Cost/income ratio	43,2%	47,0%	3,8%p
Net loans to deposits (FX-adjusted)	66%	65%	-1%p
FX rates (in HUF)	**2017**	**2018**	**Y-o-Y**
HUF/BGN (closing)	158,6	164,4	4%
HUF/BGN (average)	158,1	163,0	3%

Main financial indicators of OTP BANKA SRBIJA

Main components of P&L account in HUF mn	2017	2018	Y-o-Y
After tax profit without the effect of adjustments	-2,904	2,999	-203%
Income tax	109	-138	-226%
Profit before income tax	-3,013	3,137	-204%
Operating profit	1,360	6,227	358%
Total income	10,071	30,306	201%
Net interest income	7,235	20,514	184%
Net fees and commissions	2,275	7,286	220%
Other net non-interest income	561	2,507	347%
Operating expenses	-8,711	-24,079	176%
Total provisions	-4,373	-3,090	-29%
Provisions from impairment on loan and placement losses	-3,133	-3,146	0%
Other provision	-1,241	56	-105%
Main components of balance sheet closing balances in HUF mn	**2017**	**2018**	**YTD**
Total assets	482,887	590,166	22%
Gross customer loans	306,874	395,217	29%
Gross customer loans (FX-adjusted)	319,010	395,217	24%
Retail loans	162,255	185,641	14%
Corporate loans	156,755	209,576	34%
Allowances for possible loan losses	-19,759	-14,774	-25%
Allowances for possible loan losses (FX-adjusted)	-20,534	-14,774	-28%
Deposits from customers	349,553	372,961	7%
Deposits from customer (FX-adjusted)	363,123	372,961	3%
Retail deposits	248,029	260,623	5%
Corporate deposits	115,094	112,338	-2%
Liabilities to credit institutions	38,397	117,169	205%
Subordinated debt	2,505	0	-100%
Total shareholders' equity	80,070	84,848	6%
Loan Quality	**2017**	**2018**	**Y-o-Y**
Stage 3 loan volume under IFRS 9 (in HUF million)	-	18,819	
Stage 3 loans under IFRS 9/gross customer loans (%)	-	4,8%	
Provision for impairment on loan and placement losses/average gross loans (%)	2,64%	0,90%	-1,73%p
90+ days past due loan volume (in HUF million)	28,372	15,322	-46,0%
90+ days past due loans/gross customer loans (%)	9,2%	3,9%	-5,4%p
Total provisions/90+ days past due loans (%)	69,6%	96,4%	26,8%p
Performance Indicators (%)	**2017**	**2018**	**Y-o-Y**
ROA	-2,0%	0,6%	2,6%p
ROE	-9,5%	3,7%	13,2%p
Total income margin	6,84%	5,84%	-1,00%p
Net interest margin	4,92%	3,95%	-0,96%p
Cost/income ratio	86,5%	79,5%	-7,0%p
Net loans to deposits (FX-adjusted)	82%	102%	20%p
FX rates (in HUF)	**2017**	**2018**	**Y-o-Y**
HUF/RSD (closing)	2,6	2,7	4%
HUF/RSD (average)	2,55	2,70	0%

Main financial indicators of OTP BANKA HRVATSKA (CROATIA)

Main components of P&L account in HUF mn	**2017**	**2018**	**Y-o-Y**
After tax profit without the effect of adjustments	17,105	24,961	46%
Income tax	-3,742	-5,638	51%
Profit before income tax	20,848	30,599	47%
Operating profit	28,779	35,456	23%
Total income	63,643	78,295	23%
Net interest income	44,313	54,059	22%
Net fees and commissions	12,603	16,042	27%
Other net non-interest income	6,728	8,194	22%
Operating expenses	-34,864	-42,840	23%
Total provisions	-7,931	-4,857	-39%
Provisions from impairment on loan and placement losses	-7,498	-3,046	-59%
Other provision	-434	-1,811	318%
Main components of balance sheet closing balances in HUF mn	**2017**	**2018**	**YTD**
Total assets	1,821,613	1,837,158	1%
Gross customer loans	1,121,938	1,178,848	5%
Gross customer loans (FX-adjusted)	1,166,262	1,178,848	1%
Retail loans	648,330	662,747	2%
Corporate loans	498,462	498,332	0%
Car financing loans	19,470	17,768	-9%
Allowances for possible loan losses	-63,752	-71,186	12%
Allowances for possible loan losses (FX-adjusted)	-66,389	-71,186	7%
Deposits from customers	1,395,087	1,424,746	2%
Deposits from customer (FX-adjusted)	1,454,609	1,424,746	-2%
Retail deposits	1,033,638	1,049,946	2%
Corporate deposits	420,971	374,800	-11%
Liabilities to credit institutions	132,765	85,702	-35%
Total shareholders' equity	238,935	269,126	13%
Loan Quality	**2017**	**2018**	**Y-o-Y**
Stage 3 loan volume under IFRS 9 (in HUF million)	-	89,059	
Stage 3 loans under IFRS 9/gross customer loans (%)	-	7,6%	
Provision for impairment on loan and placement losses/average gross loans (%)	0,85%	0,26%	-0,59%p
90+ days past due loan volume (in HUF million)	74,325	65,011	-13%
90+ days past due loans/gross customer loans (%)	6,6%	5,5%	-1,1%p
Total provisions/90+ days past due loans (%)	85,8%	109,5%	23,7%p
Performance Indicators (%)	**2017**	**2018**	**Y-o-Y**
ROA	1,3%	1,4%	0,1%p
ROE	9,3%	9,6%	0,3%p
Total income margin	4,70%	4,27%	-0,42%p
Net interest margin	3,27%	2,95%	-0,32%p
Cost/income ratio	54,8%	54,7%	-0,1%p
Net loans to deposits (FX-adjusted)	76%	78%	2%p
FX rates (in HUF)	**2017**	**2018**	**Y-o-Y**
HUF/HRK (closing)	41,6	43,4	4%
HUF/HRK (average)	41,4	42,3	2%

Main financial indicators of OTP BANKA SLOVENSKO

Main components of P&L account in HUF mn	2017	2018	Y-o-Y
After tax profit without the effect of adjustments	-2,051	44	-102%
Income tax	-231	-56	-76%
Profit before income tax	-1,820	100	-106%
Operating profit	6,616	2,598	-61%
Total income	17,452	15,014	-14%
Net interest income	13,358	11,148	-17%
Net fees and commissions	3,627	3,536	-3%
Other net non-interest income	467	330	-29%
Operating expenses	-10,836	-12,416	15%
Total provisions	-8,436	-2,498	-70%
Provisions from impairment on loan and placement losses	-8,358	-2,579	-69%
Other provision	-78	81	-204%
Main components of balance sheet closing balances in HUF mn	**2017**	**2018**	**YTD**
Total assets	452,084	454,498	1%
Gross customer loans	382,932	393,111	3%
Gross customer loans (FX-adjusted)	396,969	393,111	-1%
Retail loans	343,023	340,776	-1%
Corporate loans	53,917	52,320	-3%
Car financing loans	30	15	-50%
Allowances for possible loan losses	-28,098	-31,582	12%
Allowances for possible loan losses (FX-adjusted)	-29,128	-31,582	8%
Deposits from customers	343,924	360,069	5%
Deposits from customer (FX-adjusted)	356,595	360,069	1%
Retail deposits	330,742	331,734	0%
Corporate deposits	25,853	28,336	10%
Liabilities to credit institutions	10,020	22,725	127%
Issued securities	51,996	27,328	-47%
Subordinated debt	6,205	8,691	40%
Total shareholders' equity	32,200	29,382	-9%
Loan Quality	**2017**	**2018**	**Y-o-Y**
Stage 3 loan volume under IFRS 9 (in HUF million)	-	35,916	
Stage 3 loans under IFRS 9/gross customer loans (%)	-	9,1%	
Provision for impairment on loan and placement losses/average gross loans (%)	2,17%	0,65%	-1,51%
90+ days past due loan volume (in HUF million)	35,968	29,160	-19%
90+ days past due loans/gross customer loans (%)	9,4%	7,4%	-2,0%
Total provisions/90+ days past due loans (%)	78,1%	108,3%	30,2%
Performance Indicators (%)	**2017**	**2018**	**Y-o-Y**
ROA	-0,5%	0,0%	0,5%
ROE	-7,6%	0,2%	7,7%
Total income margin	3,90%	3,32%	-0,58%
Net interest margin	2,98%	2,47%	-0,52%
Cost/income ratio	62,1%	82,7%	20,6%
Net loans to deposits (FX-adjusted)	103%	100%	-3%
FX rates (in HUF)	**2017**	**2018**	**Y-o-Y**
HUF/EUR (closing)	310,1	321,5	4%
HUF/EUR (average)	309,2	318,9	3%

Main financial indicators of OTP BANK UKRAINE

Main components of P&L account in HUF mn	2017	2018	Y-o-Y
After tax profit without the effect of adjustments	14,120	24,415	73%
Income tax	-2,954	-4,760	61%
Profit before income tax	17,074	29,175	71%
Operating profit	18,876	30,095	59%
Total income	34,595	47,145	36%
Net interest income	23,060	33,040	43%
Net fees and commissions	9,716	11,444	18%
Other net non-interest income	1,819	2,661	46%
Operating expenses	-15,719	-17,050	8%
Total provisions	-1,802	-920	-49%
Provisions from impairment on loan and placement losses	-1,060	-1,680	59%
Other provision	-742	760	-202%
Main components of balance sheet closing balances in HUF mn	**2017**	**2018**	**YTD**
Total assets	312,334	391,240	25%
Gross customer loans	287,236	354,258	23%
Gross customer loans (FX-adjusted)	314,914	354,258	12%
Retail loans	120,845	127,413	5%
Corporate loans	173,463	199,493	15%
Car financing loans	20,607	27,352	33%
Gross DPD0-90 customer loans (FX-adjusted)	231,810	300,724	30%
Retail loans	48,545	75,922	56%
Corporate loans	166,272	197,693	19%
Car financing loans	16,993	27,109	60%
Allowances for possible loan losses	-90,163	-72,753	-19%
Allowances for possible loan losses (FX-adjusted)	-98,746	-72,753	-26%
Deposits from customers	234,943	269,832	15%
Deposits from customer (FX-adjusted)	256,762	269,832	5%
Retail deposits	106,942	123,833	16%
Corporate deposits	149,819	145,999	-3%
Liabilities to credit institutions	33,985	48,197	42%
Subordinated debt	0	4,903	-100%
Total shareholders' equity	34,079	57,821	70%
Loan Quality	**2017**	**2018**	**Y-o-Y**
Stage 3 loan volume under IFRS 9 (in HUF million)	-	88,604	
Stage 3 loans under IFRS 9/gross customer loans (%)	-	25,01%	
Provision for impairment on loan and placement losses/average gross loans (%)	0,31%	0,51%	0,20%p
90+ days past due loan volume (in HUF million)	75,922	53,534	-29%
90+ days past due loans/gross customer loans (%)	26,4%	15,1%	-11,3%p
Total provisions/90+ days past due loans (%)	118,8%	135,9%	17,1%p
Performance Indicators (%)	**2017**	**2018**	**Y-o-Y**
ROA	4,6%	6,8%	2,2%p
ROE	47,1%	55,6%	8,5%p
Total income margin	11,19%	13,15%	1,95%p
Net interest margin	7,46%	9,21%	1,75%p
Cost/income ratio	45,4%	36,2%	-9,3%p
FX rates (in HUF)	**2017**	**2018**	**Y-o-Y**
HUF/UAH (closing)	9,2	10,1	10%
HUF/UAH (average)	10,3	9,9	-4%

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	Note	Year ended December 31, 2018	Year ended December 31, 2017
Interest Income		450,042	352,433
Interest Expense		(105,028)	(59,575)
Net interest income	6	**345,014**	**292,858**
Fee and commission income		78,161	71,139
Fee and commission expense		(29,352)	(24,177)
Net fee and commission income	7	**48,809**	**46,962**
Impairment losses	8	**(120,862)**	**(21,803)**
Net interest, fee and commission income after impairment losses		**272,961**	**318,017**
Trading income, net	9	63,710	52,122
Gains or losses on financial assets and liabilities designated as at fair value through profit or loss – net		(2,326)	459
Gains or losses on financial assets and liabilities designated as at fair value through other comprehensive income		(191)	-
Other operating income	12	15,678	19,270
Total income from financial operations		**76,871**	**71,851**
Total operating revenues		**349,832**	**389,868**
Salaries and related expenses	10	(151,553)	(126,953)
Other administrative expenses	11	(116,103)	(116,244)
Depreciation of tangible and Intangible assets	19	(18,373)	(17,534)
Other operating expenses	12	(20,217)	(28,361)
Total non-interest expense		**(306,246)**	**(289,092)**
Profit before income taxes		**43,586**	**100,776**
Income tax expense	29	(17,369)	(16,255)
Net Profit for the period		**26,217**	**84,521**
Items that will not be reclassified to profit or loss			
Revaluation of property, plant, and equipment (net of deferred tax)		13,911	(3,662)
Net change in fair value of financial assets through other comprehensive income (net of deferred tax) – equity		1,938	-
Total items that will not be reclassified to profit or loss		**15,849**	**-3,662**
Items that may be reclassified to profit or loss			
Net change in fair value of financial assets through other comprehensive income (net of deferred tax) -debt instruments		-6,079	-
Net change in fair value of financial assets available for sale (net of deferred tax) -debt instruments		-	6,709
Total items that may be reclassified to profit or loss		**-6,079**	**6,709**
Other comprehensive income, net of tax		**9,770**	**3,047**
Total comprehensive income for the reporting period		**35,987**	**87,568**
Basic earnings per ordinary share	**31**	**4,17**	**14,71**

These separate financial statements have been authorized for issue by the management on 22nd of March, 2019.

Gábor Ljubičić,
Director General Adjunct și
Vice-președinte al Directoratului

Mara Cristea
Director General Adjunct și
Membru al Directoratului

BALANCE	Note	December 31, 2018	December 31, 2017
ASSETS			
Cash	13	469,476	272,902
Current accounts and deposits at banks	14	598,086	99,660
Accounts with the National Bank of Romania	15	966,354	991,488
Securities at amortized cost	16	288,678	187,986
Loans and advances to customers, net	18	7,703,992	6,916,906
Loans and advances to banks	17	2,069	121
Investment securities - Available for sale according to IAS 39	20	-	403,014
Investment securities at fair value through profit and loss according to IAS 39	20	-	4,289
Investment securities at fair value through profit and loss	21	11,426	-
Investment securities at fair value through other comprehensive income	20	698,200	-
Investment in Associates and Subsidiaries	21	11,923	8,611
Tangible assets, net	19	152,316	130,566
Intangible assets, net	19	38,471	19,606
Tangible assets classified as held for sale	19,4,2,3	4,206	5,989
Investment property, net		461	1,440
Derivatives	26	6,991	2,273
Derivatives hedge accounting	2	3,142	-
Current tax asset	29	13,019	13,019
Deferred tax asset	29	12,490	32,010
Other assets, net	22	71,526	54,955
Total assets		**11,052,827**	**9,144,835**
LIABILITIES			
Due to Banks		438,950	11,089
Demand deposits from banks	*23*	*38,301*	*11,089*
Term deposits from banks	*23*	*400,649*	-
Due to customers		7,032,663	6,480,320
Demand deposits from customers	*24*	*2,602,190*	*2,374,577*
Term deposits from customers	*24*	*4,430,473*	*1,319,004*
Borrowings	25	2,090,171	725,258
Derivatives	26	8,270	4,911
Derivatives hedge accounting	27	25,938	24,475
Provisions	28	123,727	48,220
Other financial liabilities	30	117,874	104,854
Total liabilities		**9,837,593**	**7,992,873**
SHAREHOLDERS' EQUITY			
Share capital, nominal	31	1,509,253	1,379,253
Share capital inflation effect		42,751	42,751
Total share capital		1,552,004	1,422,004
Accumulated deficit and reserves		(336,770)	(270,042)
Total shareholders' equity		**1,215,234**	**1,151,962**
Total liabilities and shareholders' equity		**11,052,827**	**9,144,835**

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Mara Cristea
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Membru al Directoratului

	Note	Year ended December 31, 2018	Year ended December 31, 2017
Cash flows from operating activities:			
Net profit		**26,217**	**84,522**
Adjustments for non-cash items:			
Depreciation expense		18,336	17,534
Impairment losses on loans and advances to customers		79,504	34,650
Impairment losses on sundry transactions		(1,368)	261
Other adjustments		67,476	8,763
Valuation of derivative transactions		(3,038)	26,083
Total adjustments for non-cash items		**160,910**	**87,291**
Net profit adjusted for non-cash items		**187,127**	**171,813**
Changes in operating assets and liabilities:			
Increase of restricted cash at National Bank of Romania		(86,672)	(1,212)
Increase of loans and advances to customers		(951,124)	(691,683)
Increase of loans and advances to banks		(1,948)	62,533
Increase of other assets		(15,983)	(9,252)
Increase of demand deposits		525,317	214,601
Increase of term deposits		454,887	(132,975)
Increase of other liabilities		13,800	18,938
Total changes in operating assets and liabilities		**(61,772)**	**(539,052)**
Net cash provided by operating activities		**125,405**	**(367,240)**
Cash flows from investing activities:			
Purchase of investments available for sale, under IAS 39		-	(204,228)
Purchase of investments at fair value through other comprehensive income		(297,048)	-
Purchase of sale of investments at amortized cost		(100,692)	50,019
Purchase of investments at fair value through profit and loss		(7,137)	19,079
Purchase of tangible and intangible assets, net		(35,187)	(14,223)
Payments for an increase in the share capital of subsidiaries	21	(3,312)	-
Net cash used in investing activities		**(443,377)**	**(149,352)**
Cash flows from financing activities:			
Increase of borrowings		771,167	593,746
Proceeds from issue of shares		130,000	125,000
Net cash provided by financing activities		**901,167**	**718,746**
Net increase in cash and cash equivalents		**583,195**	**202,154**
Cash and cash equivalents at beginning of the period	13	**900,830**	**698,676**
Cash and cash equivalents at end of the period	13	**1,484,025**	**900,830**

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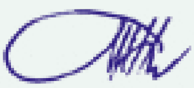

	Share Capital	Reevaluation reserves	Retained earnings	Total
Balance as of December 31, 2017	**1,379,253**	**42,751**	**(270,042)**	**1,151,962**
Effect of changes in accounting policies - IFRS 9 adoption	-	-	(104,996)	(104,996)
Net income recognized directly in equity	-	-	(1,860)	(1,860)
Net profit for the period ended December 31, 2018	-	-	26,217	26,217
Net change in Tangible Assets Revaluation reserve	-	-	13,911	13,911
Increase in share capital	130,000	-	-	130,000
Balance as of December 31, 2018	**1,509,253**	**42,751**	**(336,770)**	**1,215,234**

	Share Capital	Reevaluation reserves	Retained earnings	Total
Balance as of December 31, 2016	**1,254,253**	**42,751**	**(361,970)**	**935,034**
Net expenses recognized directly in equity	-	-	11,069	11,069
Net profit for the period ended December 31, 2017	-	-	84,521	84,521
Net change in Tangible Assets Revaluation reserve	-	-	(3,662)	(3,662)
Increase in share capital	125,000	-	-	125,000
Balance as of December 31, 2017	**1,379,253**	**42,751**	**(270,042)**	**1,151,962**

These separate financial statements have been authorized for issue by the management on 22nd of March 2019.

Gábor Ljubičić,
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Mara Cristea
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NOTA 1: GENERAL OVERVIEW ON THE BANK AND ITS OPERATIONS

OTP BANK ROMANIA SA (hereinafter the "Bank" or "OTP Romania") was established as a private bank in 1995, under the official name "Banca Comercială RoBank S,A, and Trade Register number J40/10296/1995.

In July 2004, OTP Bank Ltd (Hungary) became the main shareholder of the Bank and in July 2005 the Bank was officially registered with the Romanian Trade Register under the name "OTP Bank Romania S,A,"

The Head Office of the Bank is seated in Romania, Bucharest, 66-68 Buzești Street, District 1.

The Bank's tax identification number is RO 7926069.

Members of Statutory and Supervisory Boards as at 31 December 2018:

Management Board:

László Diósi	Chairman of the Management Board and CEO
Gábor István Ljubičić	Vice-Chairman of the Management Board and Deputy CEO
György Gáldi	Member of the Management Board and Deputy CEO
Mara Cristea	Member of the Management Board and Deputy CEO
Dragoș Ioan Mirică	Member of the Management Board and Deputy CEO

Supervisory Board:

Antal György Kovács	Chairman of the Supervisory Board
Judit Hanusovszky	Vice-Chairman of the Supervisory Board
Enikő Zsakó	Member
Tibor László Csonka	Member
Ildikó Pál-Antal	Independent Member
Dr. Ibolya Rajmonné Veres	Member

Members of Statutory and Supervisory Boards as at 31 December 2017:

Management Board:

László Diósi	Chairman of the Management Board and CEO
Gábor Istvan Ljubičić	Vice-Chairman of the Management Board and Deputy CEO
György Gáldi	Member of the Management Board and Deputy CEO
Mara Cristea	Member of the Management Board and Deputy CEO
Dragoș Ioan Mirică	Member of the Management Board and Deputy CEO

Supervisory Board:

Antal György Kovács	Chairman of the Supervisory Board
Judit Hanusovszky	Vice-Chairman of the Supervisory Board
Enikő Zsakó	Member
Tibor László Csonka	Member
Ildikó Pál-Antal	Independent Member
Dr. Ibolya Rajmonné Veres	Member

The Bank is managed by the Chief Executive Officer (CEO), who also acts as Chairman of the Board of Directors, In his absence, the CEO is fully represented by his representatives (other members of the Bank's Board of Directors).

Scope of the Business

The Bank holds universal banking license issued by the National Bank of Romania ("NBR") and carries out business in Romania, The basic activity of the Bank is the provision of a wide range of banking and financial services to various entities, mainly to large and medium enterprises, private individuals, and institutional customers.

The Bank's core scope of the business, under the Banking authorization from the NBR, is as follows:

- other activities representing intermediation of money – acceptance of deposits and other repayable funds;
- lending including, inter alia: consumer credit, mortgage credit, factoring with or without recourse, financing of commercial transactions, including forfeiting;
- payment services;
- issuing and administering means of payment, such as credit cards, travelers' cheques and other similar means of payments, including issuing of electronic money;
- issuing guarantees and commitments;
- trading for own account and/or for the account of clients, according to law, in:
  - money market instruments, such as cheques, bills, promissory notes, certificates of deposit;
  - foreign exchange;
  - financial futures and options contracts
  - transferable securities and other financial instruments;
  - exchange and interest rate instruments;
- Consultancy related to capital structure, business strategy and other related issues, consultancy and other services related to mergers and purchase of undertakings as well as other advice services;
- Intermediation on the inter-banking market;
- Credit reference services related to the provision of data and other credit references;
- Safe custody services;
- Operations with precious metals, gems, and objects thereof;
- Acquiring of participation in the capital of other entities,
- Rental safety boxes

The Bank is authorized to operate any other activities or services that are included in the financial field, abiding by the special laws regulating those activities, where appropriate:

- Depositing assets of investment funds and investment companies;
- Distribution of investment funds' units and investment companies' shares;
- Data processing services, database management or other such services for third parties;
- Carrying out automatic payment operations in the accounts of customers (both natural and legal entities), under the mandate granted by clients in this respect;
- Safekeeping and administration of the financial instruments;
- Participation in securities issues and other financial instruments by underwriting and selling them or by selling them and the provision of services related to such issues;
- Acting as an agent in case of syndicated loan transactions and of the loans granted by non-resident banks;
- Portfolio management and advice;
- Managing a portfolio of movable and/or immovable assets, which are the property of the credit institution, but are not used for the performance of its financial activities;
- Non-financial mandate or commission operations, especially in the account of other entities within the group the Bank relates, respectively:
  - Bank assurance activity, according to the provisions of Law 32/2000 on insurance companies and insurance supervision, with the subsequent amendments and supplements;
  - Mandate operations: acting as a marketing agent for the voluntary pension funds,
- Financial leasing
- Operating as an operator of the Electronic Real Estate Guarantee Archives
- Acquisition of participation in the share capital of other entities

Shareholders' Structure:

The majority shareholder of the Bank, OTP Bank Plc, (Hungary) is listed on the Budapest Stock Exchange and fully consolidates the Financial Statements of OTP Bank Romania S,A, The registered Head Office of the parent company is 16 Nador Street, Budapest, 1051, Hungary.

As of December 31, 2018, the shareholders' structure of the Bank was modified compared with the end of the year 2017, as follows:

December 31, 2018	Percentage of ownership	Number of shares	Amount (RON)
1, OTP Bank Nyrt	99,9999363923725%	6,288,550	1,509,252,000
2, Merkantil Bank zrt	0,0000636076275%	4	960
Total	**100%**	**6,288,554**	**1,509,252,960**

December 31, 2018	Procentaj de deținere	Număr de acțiuni	Suma (lei)
1, OTP Bank Nyrt	99,999930397100200%	5,746,883	1,379,251,920
2, Merkantil Bank zrt	0,000069602899796%	4	960
Total	**100%**	**5,746,887**	**1,379,252,880**

The organizational structure and number of employees

As at 31 December 2018, the Bank operates through its 95 territorial units (including 62 branches and 33 agencies), distributed in all counties of Romania as well as the Bucharest headquarter.

The total number of employees of the Bank as of 31 December 2018 was 1,364 (31 December 2017: 1,254),

NOTA 2: CAPITAL ADEQUACY AND REGULATORY REQUIREMENTS

The Bank calculates capital adequacy based upon the regulations issued by the National Bank of Romania ("NBR"). In the administration of its regulatory capital, the Bank aims to ensure an adequate level of business prudence and assets and liabilities monitoring, as well as to continuously maintain the Bank's regulatory capital above the minimum level required by the NBR. To accomplish this, when preparing the yearly business plan the Bank also prepares a plan of the adequacy of regulatory capital considering its business objectives and applying the knowledge gained from previous experience.

In 2018, the Bank monitored the development of requirements for regulatory capital and prepared reports on the required levels of the Bank's regulatory capital on a monthly basis. These reports have been submitted periodically to the National Bank of Romania and to the Board of Directors' meetings for periodical analysis.

The Bank complied with the minimum capital adequacy ratio set by the common decision of the supervisory authorities (National Bank of Romania and the Hungarian National Bank) as at 31 December 2018 as well as at 31 December 2017.

The Council of the European Union has approved the regulation regards transitional arrangement for mitigating the impact of the introduction of IFRS 9 on own funds. (Regulation EU 2017/2395) The regulation contains the detailed description, how banks may take into account the IFRS 9 provision impact in their regulatory capital, and in RWA calculation, in that case when the application of IFRS 9 caused a significant decrease in the Common Equity Tier 1 capital. OTP Bank Romania, like all banks in OTP Group, decided to apply this transitional mitigation effect in their own funds' calculation after 1st January 2018.

Tier 1	**December 31, 2018**	**December 31, 2017**
CET		
Share capital	1,552,004	1,297,003
Retained earnings	(337,650)	(270,041)
Other CET1 elements	(5,853)	(25,010)
Other intangible assets	(38,471)	(19,606)
Deductions	2,146	(21,573)
Other transitional adjustments (IFRS 9)	109,537	-
Tier 2		
Deductions	-	-
Own Funds	**1,281,713**	**960,773**
Own funds requirements for:		
Credit Risk	491,464	419,366
Market Risk	3,689	32
CVA	223	3
Operational Risk	67,896	63,988
OWN FUNDS REQUIREMENTS	**563,271**	**483,389**
CET1 Capital ratio	18,20%	15,90%
T1 Capital ratio	18,20%	15,90%
Total capital ratio	18,20%	15,90%

NOTA 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below:

3.1 Basis of preparation

The separate financial statements have been prepared using the historical cost model for measuring the elements presented in the statement of financial position except for the following significant items:

- Tangible and intangible assets measured using the revaluation model;
- Assets held for sale measured at the lower of carrying amount and fair value;
- Financial assets classified as measured at fair value through profit or loss and through Other Comprehensive Income;
- Share capital measured using IAS 29.

The Bank keeps accounting records and prepares statutory financial statements in accordance with Romanian accounting regulations.

Statement of compliance

These separate financial statements include the separate statement of financial position, the separate income statement and other comprehensive income, the separate statement of changes in equity, the separate statement of cash flows and notes to the separate financial statements. The separate financial statements for the period ended as of December 31, 2018, and comparative data for the period ended as of December 31, 2017 have been prepared in accordance with Order 27/2010 approving the Accounting Regulations compliant with International Financial Reporting Standards applicable to credit institutions, issued by the National Bank of Romania and in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (EU). The principal accounting policies applied in preparing these financial statements are set out below and have been applied consistently throughout all periods presented financial.

The Separate Financial Statements for the period ended as at December 31, 2018, and the comparative data for the period ended as of December 31, 2017, is prepared in Romanian new leu ("RON") and are presented in thousand Romanian new lei ("RON") unless otherwise stated, rounded to the nearest thousand.

The Bank's management assessed the functional currency of the Bank to be RON, which is also the presentation currency of these financial statements.

In 2018 the Bank has applied all the new or revised Standards Interpretations issued by the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) of the IASB that have been adopted by the EU and that are relevant to the work done by the Bank. Starting with 1st of January 2018, the Bank applies the new international financial reporting standard IFRS9 "Financial Instruments", with impact in classification and measurement of the financial instruments, and also in determining the adjustments for credit risk by recognizing the expected losses, and also applies IFRS 15 "Revenues from contracts with customers", and amendments for IFRS15 "Date of applying the enter in force of IFRS15" – adopted by European Union as of 22nd of September 2016 (applicable for yearly periods starting with 1st of January 2018, or after this date).

The differences from the measurement and booking of the financial assets and liabilities, resulted from applying the standard IFRS 9, were recognized in equity – retained earnings of the Bank as of 1st of January 2018. Details will be found in chapter 3.1. letter c).

The Bank decided not to adopt any of the standards or interpretations before the date of their effectiveness, which were prepared for issue as at the date of the authorization of these financial statements, but not yet effective.

a) a) Changes in accounting policies and adoption of revised/amended IFRS

- **IFRS 15 Revenue from Contracts with Customers.** The standard is effective for annual periods beginning on or after 1st of January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant, and equipment or intangibles). Extensive disclosures are required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates.

- **IAS 40: Transfers to Investment Property (Amendments).** The Amendments are effective for annual periods beginning on or after 1st of January 2018 with earlier application permitted. The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

- **The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle,** which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1st of January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures.
  - IFRS 1 First-time Adoption of International Financial Reporting Standards: This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first-time adopters.
  - IAS 28 Investments in Associates and Joint Ventures: The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

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

b) 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 new standards issued by IASB and adopted by the EU are not yet effective:

- **IFRS 16 "Leases"** – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1st of January 2019). Under IFRS 16 a lessee recognizes 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 recognizes finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognizes operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from the use of the underlying asset is diminished, another systematic basis.

- **IFRS 9:** Prepayment Features with Negative Compensation issued by IASB on 12 October 2017. The amendments modify the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments. Under the amendments, the sign of the prepayment amount is not relevant, i. e. depending on the interest rate prevailing at the time of termination, a payment may also be made in favor of the contracting party affecting the early repayment. The calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of an early repayment gain.

- **Amendments to IFRS 3** Definition of a Business issued by IASB on 22 October 2018. Amendments were introduced to improve the definition of a business. The amended definition emphasizes that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. In addition to amending the wording of the definition, the Board has provided supplementary guidance.

- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015 - 2017)"** issued by IASB on 12 December 2017. Amendments to various standards 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. The amendments clarify that: a company remeasures its previously held interest in a joint operation when it obtains control of the business (IFRS 3); a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business (IFRS 11); a company accounts for all income tax consequences of dividend payments in the same way (IAS 12); and a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale (IAS 23).

With the exemption of IFRS 16 Leasing, presented in chapter 3.1. letter d), the Bank considers that adopting these standards, amendments, and interpretation will not have a significant impact on financial statements in the first adoption period.

c) IFRS 9 Financial Instruments Classification and Measurement

The standard is effective for annual periods beginning on or after 1st of January 2018, with early application permitted. The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. For details in Note 3.9.

Classification and Measurement - IFRS 9 introduces a new approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements under IAS 39.

Impairment - IFRS 9 has introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new standard requires entities to account for expected credit losses from when financial instruments are first recognized and to recognize full lifetime expected losses on a more timely basis.

Hedge accounting - IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities.

Own credit risk - IFRS 9 removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss.

d) IFRS 16 "Leases"

Implementation

The published standard, IFRS 16 Leases, which is not in force as at 31 December 2018 and was not applied earlier by the Bank. IFRS 16 will be effective for annual periods beginning on or after 1st of 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 a 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 recognized in external services costs, will be currently classified as depreciation/amortization 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 recognize 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 Bank will use the modified retrospective approach.
Applying the modified retrospective approach requires the lessee to present the cumulative impact of IFRS 16 as an adjustment to equity at the start of the current accounting period in which it is first applied so that comparative figures will not be restated.

The Bank applies the following practical expedients available:

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

Impact of IFRS 16 on the financial statements Implementarea IFRS 16 (Proiect)

At the moment of preparation of these financial statements, the Bank had completed most of the work related to the 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 Bank has not applied the so-called "grandfathering exemption" - according to IFRS16.C3 despite their current classification and the assessment resulted in no different identification of the leases. Furthermore, to calculate the value of the right-of-use assets and lease liabilities the collection of all the relevant information was performed.
The Bank will present as at 1st of 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 (the 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 (1st of 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 the implementation of IFRS 16

a) Recognition of lease liabilities

Following the adoption of IFRS 16, the Bank will recognize 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. The interest rate applied by the Bank: weighted average lessee's incremental borrowing rate: ~2.95%.

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 Bank 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 USD 5,000) and for which agreements it will not recognize financial liabilities nor any respective right-of-use assets. These types of lease payments will be recognized 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 affect the measurement of finance lease liabilities and of right-of-use assets.

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

Impact on the statement of financial position

The impact of implementing IFRS 16 on the recognition of additional financial liabilities and respective right-of-use assets was estimated on the basis of agreements in force at the Bank as of 31 December 2018.
The Bank presents the following right-of-use assets in the statement of financial position as at 1st of January 2019:

Estimated financial impact	January 1ST 2019
Right-of-use of real estate	50,153
Right-of-use of machinery and equipment	209
Right-of-use of investment properties	-
Leasing liabilities	48,912

The initial application would have also impact on the Statement of Comprehensive Income and 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 1st of January 2019 to recognize the lease liabilities: ~2.95 %.

3.2 Offsetting

The Bank does not offset assets and liabilities or income and expenses unless there is a legal right to perform or if the offsetting better reflects the economic substance of the transaction. Net settlement of receivables and payables or presentation of assets after deducting the related impairment losses is not considered offsetting.

3.3 Consolidated and Separate Financial Statements

The bank is part of the consolidation perimeter of OTP Group. Consolidated financial statements for all Group entities are prepared by OTP Bank Plc, the parent company with its headquarters set at 16 Nádor Street, 1051 Budapest, Hungary.

OTP Bank Plc is also the immediate consolidating entity of the Bank.

3.3.1 Subsidiaries and affiliates

A subsidiary is an entity, including an unincorporated entity such as a partnership that is controlled by another entity (known as the parent). Control of the subsidiary is achieved when the Bank has the power to govern the accounting and operating policies of the entity under control in order to obtain benefits from its activities. According to IFRS 10 (Consolidated Financial Statements), a parent company should not prepare consolidated financial statements if and only if:

- the parent is itself a wholly-owned subsidiary the or parent is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about and do not object to the parent company not preparing consolidated financial statements;
- the parent's debt or equity instruments are not traded in a public market (a

domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);

- • the parent did not file, nor is it in the process of filing its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market;
- the parent company and any intermediate parent of the parent produce consolidated financial statements available for the public use, that comply with International Financial Reporting Standards.

All the conditions mentioned above are met and the ultimate parent company OTP Bank Plc is in the process of finalizing the consolidated financial statements as at December 31, 2018, which is expected to be made available to the public on www.otpbank.hu., as of April 2019.

3.3.2 Associates

An associate is an entity over which the Bank has significant influence and which is neither a subsidiary nor an interest in a joint venture. Significant influence implies the power to participate in decisions regarding the financial and operating policies of the association but not control or joint control over those policies.

The associates are presented in the financial statements at cost less impairment. Further information on the Bank subsidiaries and affiliates are included in Note 21.

3.4 Foreign currency translation

Transactions denominated in foreign currency are recognized at the exchange rate valid at the transaction date. Exchange differences arising from the settlement of foreign currency transactions are included in the income statement at the date of the settlement using the exchange rate valid on that date.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the official rate. For reference purposes please find below the exchange rates at the end of the reporting periods, for the major currencies:

	RON/ CHF	RON/ USD	RON/ EUR	RON / 100 HUF
The exchange rate on December 31, 2018	4,1404	4,0736	4,6639	1,4527
The exchange rate on December 31, 2017	3,9900	3,8915	4,6597	1,5011

Unrealized foreign currency gains and losses arising from the translation of monetary assets and liabilities are reflected in the income statement (please refer to Note 9).

3.5 Recognition of income and expenses

Revenue is recognized to the extent that it is probable that future economic benefits will be transferred to the Bank and this can be measured reliably.

3.6 Interest income and expenses

For all financial instruments measured at amortized cost, interest-bearing financial instruments classified as fair value through other comprehensive income, interest income, and expenses are recorded using the effective interest rate. Interest income and expenses are recognized based on the principal outstanding, using the effective interest rate applicable until to maturity of the asset/liability. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the whole life cycle of the financial instrument to the net book value of the asset or financial liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but does not account for future losses.

3.7 Fees and commission income and expenses

Fees and commissions are generally recognized as income or expense in the profit or loss account on the accrual basis, as they are earned.

Fees and commission income consist mainly of fees received for foreign currency transactions, issuance of guarantees and letters of credit and other banking services (eg.: SMS notifications, account statements, verifications with the Payment Incidents Bureau, issuing bills of exchange, etc.)

Fees and commission expenses consist mainly of fees resulting from card transactions and interbank transactions, regulatory fees or insurance premiums.

Revenue from miscellaneous services performed by the Bank are recognized when the following conditions are met:

- It is probable that the economic benefits associated with the transaction will be obtained by the Bank;
- The amount of revenue can be measured reliably;
- The stage of completion of the transaction as at the reporting date can be measured reliably;
- The costs incurred by the transaction and the costs to complete the transaction can be assessed reliably.

The recognition of revenue for financial service fees depends on the purposes for which the fees are assessed and the basis of accounting for any associated financial instrument.

Therefore, in accordance with IFRS 15, the difference is made between:

- **fees that are an integral part of the effective interest rate of a financial instrument**
  The calculation of the effective interest rate includes the fees that are directly attributable to the instrument. They are generally recognized as an adjustment to the effective interest rate. However, if the financial instrument is measured at fair value and the changes in fair value are recognized in the profit or loss then these fees are recognized as revenue at the time of the initial recognition of the instrument.

- **fees earned as services are provided**
  Fees in this category are recognized in the balance sheet as other receivables or other liabilities and are deferred linearly until the service for with they were charged is fully performed.

  Fees resulting from financial services include mainly fees charged by the Bank for lending. For example, in case of revolving credit lines (where the borrower has the option to make multiple draws up to a maximum amount, to repay part of such trenches and then to re-draw under the same loan agreement), the net fees are recognized on a straight-line basis over the period when the revolving credit line is available.

Commissions for financial guarantees and letters of credit are amortized linearly over the lifetime of the instruments.

- **fees earned on the execution of a significant act**

In cases when whether the service is provided or not is determined by performing a significant consideration, the revenue recognition is made at the time of performing a significant consideration.

This also applies to a wide range of standard banking services, related fees (money transfers, foreign exchange, etc.) and as a result of contracting additional services required by the customer (fee for issuing a copy of the loan agreement, the fee for changing a commitment upon the request of the customer, etc.).

Such fees are treated as one-off fees related to specific service that is provided by the Bank and therefore accounted for on cash basis.

3.8 Financial assets

Un activ financiar este orice activ care este:
(a) cash;
(b) an equity instrument of another entity;
(c) a contractual right:
  (i) to receive cash or another financial asset from another entity; or
  (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the Bank; or
(d) a contract that will or may be settled in the Bank's own equity instruments and is a non-derivative for which the Bank is or may be obliged to receive a variable number of the Bank's own equity instruments; or
(e) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Bank's own equity instruments.

3.8.1 Categories of financial instruments

a) Financial assets at fair value through other comprehensive income (FVOCI)

Equity instruments

In accordance with IFRS 9.5.7.1 (b), 5.7.5 at initial recognition, the Bank may make an irrevocable choice, at instrument level, to present in other comprehensive income subsequent changes in fair value of an investment in an equity instrument which is not held for trading and is not contingent consideration recognized by a buyer in a business combination to which it applies IFRS 3 "Business combinations". In this case, gains and losses remain valued at fair value through other comprehensive income without recycling to profit or loss.

Debt instruments

These financial assets are held within a business model whose objective is achieved by collecting contractual cash flows and sale of financial assets and the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest due, they meet the "SPPI" test.

Under the business model “Held to collect contractual cash flows and selling financial assets”, the Bank's key management personnel has made a decision that both collecting contractual cash flows and selling are fundamental to achieving the objective of the business model.
Compared to the business model with an objective to hold financial assets to collect contractual cash flows, this business model will typically involve greater frequency and value of sales. This is because selling financial

assets is integral to achieving the business model's objective rather than only incidental to it.

b) Financial assets at amortized cost (AC)

Debt instruments

A debt instrument is to be measured at amortized cost if the following conditions are met: the financial asset is held within a business model whose objective is to hold financial assets for the purpose of collecting contractual cash flows and the contractual terms of the financial asset give rise, at certain dates, to cash flows that are exclusively principal payments and interest, i.e. they meet the SPPI condition.
In order to determine whether cash flows will be obtained by collecting the contractual cash flows of financial assets, the Bank analyzes the frequency, values, and timing of sales from previous periods, the reasons for those sales and expectations of future sales activity.
In accordance with IFRS 9, paragraph B4.1.3, a business model can be to hold financial assets to collect contractual cash flows even when some sales of financial assets occur or are expected to occur in the future.
The following scenarios are considered by the Bank, in accordance with IFRS 9, consistent with a hold to collect business model:

a) the Bank sells financial assets when there is an increase in the assets' credit risk. To determine whether there has been an increase in the assets' credit risk, the entity considers reasonable and supportable information, including forwarding looking information. Irrespective of their frequency and value, sales due to an increase in the assets' credit risk are not inconsistent with a business model whose objective is to hold financial assets to collect contractual cash flows because the credit quality of financial assets is relevant to the entity's ability to collect contractual cash flows. [IFRS 9.B4.1.3A].
b) sales are infrequent (even if significant in value) or insignificant in value both individually and in aggregate (even if frequent). [IFRS 9.B4.1.3B].
c) sales made close to the maturity of the financial assets and the proceeds from the sales approximate the collection of the remaining contractual cash flows. [IFRS 9.B4.1.3B].

c) Financial assets at fair value through profit or loss (FVTPL)

Derivatives

In accordance with IFRS 9, derivative financial instruments are measured at fair value through profit or loss.

Equity instruments

In accordance with IFRS 9, paragraph 5.7.5, the Bank will measure equity instruments in the category held for trading at fair value through profit or loss, those that the Bank does not make an irrevocable choice to present changes in fair value in other comprehensive income.

Debt instruments

A debt instrument has to be measured at fair value through profit or loss if it is not held either in a business model in which the object is to hold assets and to collect contractual treasury flows or in a business model for which the objective is achieved both by collecting contractual cash flows and by selling financial assets or is held within one of the aforementioned business models but does not fulfill the SPPI test. A business model that results in fair value through profit or loss is the one in which the Bank manages its financial assets in order to realize cash flows through the sale of assets. The Bank takes decisions based on the fair values of assets and manages assets to achieve these fair values. In this case, the entity's objective will usually lead to active buying and selling. [IFRS 9.B4.1.5]

A portfolio of financial assets that is managed and whose performance is measured on a fair value basis is neither held to collect contractual cash flows nor to collect contractual cash flows and to sell financial assets. The Bank focuses primarily on fair value information and uses this information to assess asset performance and make decisions. Additionally, a portfolio of financial assets that meet the definition of being held for trading is not held to collect contractual or held cash flows both to collect contractual cash flows and to sell financial assets. For such portfolios, collecting cash flows is only related to the business model objective.

3.8.2 Initial Recognition

Financial assets are measured at initial recognition at fair value plus or minus directly attributable transaction costs in the case of financial assets other than fair value through profit or loss.

Transaction costs:

a) incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument;
b) an incremental cost is one that would not have been incurred if the Bank had not acquired, issued or disposed of the financial instrument.;
c) trading costs include fees and commissions paid to agents (including agents acting as sales agents), advisers, brokers and dealers, regulatory agency fees and stock exchanges, as well as transfer and attribution fees;
d) do not include bonuses or discounts, internal financing or administrative costs, or costs of ownership

For financial assets that are not measured at fair value through profit or loss, transaction costs are amortized in profit or loss using the effective interest method.
The Bank initially recognizes the financial assets, except for derivative financial instruments, at the settlement date.

The Bank's derivative instruments are recognized at the date of the transaction at which the Bank becomes a party to the instruments.

3.8.3 Subsequent recognition

Depending on the classification, financial assets will be measured at amortized cost or fair value.
Instruments classified as "AC" are recorded at amortized cost using the effective interest rate (EIR) or credit-adjusted effective interest rate (CAIR) for purchased or originated financial asset(s) that are credit-impaired on initial recognition
According to IFRS 9, the effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

CAIR is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset to the amortized cost of a financial asset that is a purchased or originated credit-impaired financial asset

The effective interest rate method is a method of calculating a financial asset or a financial liability and of allocating and recognizing interest income or interest expense in profit or loss over the relevant period. In calculating the effective interest rate, the Bank has to estimate the expected cash flows taking into account all contractual terms of the financial instrument (pre-pay, extension, call and similar options) but does not need to consider expected credit losses.
The method is used to calculate the amortized cost of a financial asset or financial liability and to allocate and

recognize interest income or interest expense in profit or loss during the relevant period.

3.8.4 Subsequent derecognition

The Bank shall derecognize a financial asset when, and only when:

(a) the contractual rights to the cash flows from the financial asset expire, or
(b) it transfers the financial asset and the transfer meets the following two conditions:
    i. transfer the contractual rights to receive the cash flows of the financial asset, or
    ii. retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets the conditions:
    - The Bank has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset. Short-term advances by the entity with the right of full recovery of the amount lent plus accrued interest at market rates do not violate this condition.
    - The Bank is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows
    - The Bank has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay.

Also, according to IFRS 9, paragraph B5.5.25, in some circumstances renegotiation or modification of the contractual cash flows of a financial asset may lead to the derecognition of the existing financial asset. Thus, when a change in a financial asset results in a derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a "new" financial asset in accordance with IFRS 9. In order to determine derecognition, changes to the contractual clauses must be significant in terms of quantity and / or quality.

3.8.5 Reclasification

If the Bank changes its business model for the management of its financial assets, then it shall reclassify those financial assets according to the classification rules. According to IFRS 9, if the Bank reclassifies financial assets, it shall apply the reclassification prospectively from the reclassification date. The entity shall not restate any previously recognized gains, losses (including impairment gains or losses) or interest.

If the Bank reclassifies a financial asset out of the amortized cost measurement category and into the fair value through profit or loss measurement category, its fair value is measured at the reclassification date.

Any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in profit or loss.

If the Bank reclassifies a financial asset out of the fair value through profit or loss measurement category and into the amortized cost measurement category, its fair value at the reclassification date becomes its new gross carrying amount.

If the Bank reclassifies a financial asset out of the amortized cost measurement category and into the fair value through other comprehensive income measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in other comprehensive income.

If the Bank reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the amortized cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. However, the cumulative gain or loss previously recognized in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortized cost. This adjustment affects other comprehensive income but does not affect profit or loss and therefore is not a reclassification adjustment
If the Bank reclassifies a financial asset out of the fair value through profit or loss measurement category and into the fair value through other comprehensive income measurement category, the financial asset continues to be measured at fair value.

If the Bank reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the fair value through profit or loss measurement category, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

The Bank uses settlement date accounting for the recognition and derecognition of financial assets.

According to IFRS 9, the settlement date is the date on which an asset is delivered to or by the Bank. Settlement date accounting refers to

(a) recognition of an asset on the day it is received by the Bank; and
(b) derecognition an asset and recognition of any gain or loss on disposal on the day it is delivered by the Bank.

When settlement date accounting is applied, the Bank accounts for any change in the fair value of the asset to be received during the period between the trade date and the settlement date in the same way as it accounts for the purchased asset. Thus, the change in value is not recognized for assets measured at amortized cost; is recognized in profit or loss for assets classified as financial assets at fair value through profit or loss; and is recognized in other comprehensive income for financial assets at fair value through other comprehensive income and for investments in equity instruments designated at fair value through other comprehensive income.

3.8.6 Impairment

According to the expected loss pattern set by IFRS 9, a credit risk event (impairment indicator) should not occur before the loss adjustments are recognized. Consequently, expected losses are always to be recognized at the minimum for the next 12 months. The expected loss over the entire period of the financial instrument will be recognized in the event of a significant increase in credit risk compared to the time of initial recognition.

The significant increase in credit risk compared to the time of initial recognition of a financial asset is an indicator can be based on items such as the currency of the loan, the collateral coverage, the borrower's creditworthiness or other forward-looking items however there is a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. A significant exchange-rate shock at the level of the denomination of credit that causes a significant group of borrowers to request conversion will be considered a relevant indication of the significant increase in credit risk.

The transition from recognizing 12-month expected credit losses (Stage 1) to lifetime expected credit losses (Stage 2) is based on the notion of a significant increase in credit risk over the remaining life of the instrument in comparison with the credit risk on initial recognition and includes the following triggers at reporting date:

a/ Days past Due ("DPD") 31-90
b/ Performing forborne
c/ Default on other loans of a private individual debtor (if not all exposures of the client are regarded as defaulted due to the 20% pulling effect when all on-balance sheet and off-balance sheet exposures to a single client are regarded as non-performing, if the gross value of the exposures past due over 90 days, stated in the balance sheet, exceeds 20% of the gross value of all on-balance sheet exposures from the respective client)
d/ The transaction/private individual client behavioral rating for secured or cash loans exceeds a predefined value
e/ 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
f/ Loan to Value ("LTV") in case of private individuals secured loans exceeds a predefined rate of 125% or for such segment, LTV cannot be derived due to zero value of the collateral
g/ The transaction currency suffered a significant shock since loan origination and there is no hedge position in respect thereof
h/ Legal entities clients flagged Watchlist 2 in the loan monitoring process; clients with 'significantly increased risk shall be selected individually to stage 2 in the monitoring process, according to the decisions of the Loans Monitoring Committee, however provision calculation on this portfolio is done by using the collective approach (individually selected but collectively assessed).

Credit-impaired financial assets are those for which one or more events that have a detrimental effect on the estimated future cash flows have already occurred. These financial assets would be in Stage 3 and lifetime expected losses would be recognized. Indicators that an asset is a credit-impaired include observable data about the following events at reporting date:
a/ DPD 90+ (with a materiality threshold in line with the default definition),
b/ DPD 31-90 & default status
c/ Non-performing forborne
d/ Legal procedures over debtor (Insolvency/Bankruptcy/Liquidation/ Winding up)
e/ Legal entities clients flagged Watchlist 3 during the loans monitoring process or clients managed by the Restructuring &Workout Directorate
f/ Clients selected by risk management (soft criteria)
g/ "Debt to asset law" active notification status marked at the loan level

Financial assets are analyzed to determine the expected loss adjustment at each reporting date. The adjustment for the expected loss on a financial instrument is equal to the amount of expected lifetime loss if the credit risk associated with that financial instrument has increased significantly since initial recognition.

If the credit risk for a financial instrument

[1] In the event in which the Bank does not have a rating system that allows the risk to be compared between the initial recognition dates and the data reported on a particular portfolio during the transitional period until the development of such a system, the exposures in Stage 1 will be treated to recognize additional provisions for Stage 2 not identified by increasing the probability of a prudential coefficient

did not increase significantly after the initial recognition, the Bank shall measure the loss adjustment for that financial instrument at a value equal to the 12-month credit losses expected.

For purchased or originated credit-impaired financial assets (POCIs), the Bank recognizes as a loss adjustment only the cumulative changes in expected lifetime loss after initial recognition.

At each reporting date, the Bank shall recognize in profit or loss the amount of change in expected lifetime loss as a gain or loss on impairment.

For contractual assets and trade receivables, the Bank chose to apply the simplified approach to measuring the expected loss of credit.

Financial assets at amortized cost: For this category, the loss amount is measured using the formula PD x LGD X Exposure. PDs (default probability) and LGD (loss in case of default) are calculated based on the residual maturity of the exposure. The amount of the loss is recognized in profit or loss. Valuable recoveries are allowed.

Financial assets measured at fair value through other comprehensive income: For this category, the loss amount is measured as PD x LGD X Exposure. PDs (default probability) and LGD (default in case of default) are calculated based on the residual maturity of the exposure. Recoveries are allowed: they must be recognized through profit or loss for debt securities. Loss adjustment must be recognized in other comprehensive income and should not reduce the carrying amount of the financial asset in the statement of financial position.

When issuing a financial instrument, it is assumed that the Bank enters into market transactions and therefore the value of the instrument recorded in the accounting will be equal to the net cash flow paid or received by the bank.

The Bank records the adjustment for the expected loss of financial assets in a separate provision and does not directly reduce the carrying amount of the asset.

Therefore, financial assets are presented in the balance sheet at their net present value less receivable with related expense related income and expense over the period of the loan, unamortized premiums, and expense adjustments.

Expenditures with third parties such as legal fees resulting from the conclusion of the loan are treated as part of the cost of the transaction. All loans and advances are recognized when cash is transferred to borrowers.

The provisioning policy used by OTP Bank Romania is based on the methodology for identifying and assessing expected losses and provisions in accordance with IFRS 9.

General Aspects of the Principles of Recognizing Expected Loss on Financial Assets at Amortized Cost (Loans)

IFRS 9 sets out a three-stage depreciation assessment model according to which financial assets have (or have not) suffered a significant increase in credit risk compared to the time of initial recognition. The three stages determine the level of impairment to be recognized in the form of expected loss (ECL) (as well as the level of interest income to be recognized) at each reporting moment:

Stage 1: Credit risk has not increased significantly - Recognizing the expected losses for the next 12 months
Stage 2: Credit risk increased significantly from the time of initial recognition - Recognition of expected lifetime loss
Stage 3: Financial asset depreciated - recognizing expected lifetime loss.

Financial assets that are impaired on the acquisition or approval date (POCI) will be classified for reporting purposes (eg FINREP) at the appropriate stages (Stage 2 or Stage 3).

The estimated expected loss for the next 12 months is the credit risk loss of the financial assets expected to occur according to the likelihood of the default event occurring within the 12 months following the initial recognition or from the reporting date for the instruments classified in stage 1.

Estimated expected loss over the life of the financial instrument is the present value of the expected loss according to the likelihood of the default event occurring at any time until the final maturity of the financial asset.

According to IFRS 9, the loss on the expected credit can be determined on the basis of individual analysis or collective analysis. The Bank's model for calculating expected loss of credit involves:

- Individual or collective analysis for Stage 3 clients
- Collective analysis for Stage 2 or Stage 1 customers.

Recognition of the expected loss on loans on a collective basis

Recognition of the expected loss over the life of the collective financial assets takes into account comprehensive credit risk information. Comprehensive information on credit risk incorporates both historical and present-day relevant information, including macroeconomic forward-looking information to estimate a result close to recognizing expected loss over the life of individual financial assets. All credit exposures are subject to collective analysis without exception, even though some exposures are eventually analyzed and provisioned on an individual basis.

In order to determine the significant increase in credit risk and the recognition of an impairment adjustment on a collective basis, the Bank groups the financial instruments on the basis of the common credit risk characteristics in order to facilitate the early identification of the significant increase in credit risk.

Analysis of portfolio granularity for segmentation purposes is the first step of the collective analysis and is based on the analysis of default rates at sub-segments compared to upper segments. A significant deviation of these values indicates the favorable relevance of including the subsegment in the collective analysis.

The characteristic elements of the credit activity used for segmentation will be:

a / For legal entities
- • Business line: Corporate, SME, Municipalities

b / For individuals
- • Instrument type:
  - o Loans secured by mortgages: Currency, Status on conversion
  - o Consumer credit: the number of contract years shortened
  - o Credit card: Originating entity
  - o Overdraft.

The Bank will calculate the provision for each exposure analyzed collectively based on the parameters below:
- Probability of default (PD) - is estimated for the entire life of financial instruments with the possibility of dividing at incremental values for each remaining life year. PD estimates are point-in-time (PIT), reflecting the relevant present and future information.

Estimating the probability of default for the next 12 months or over the remaining lifetime is based on migration matrices. Matrices are matched to reflect the migration of the number of exposures over a 12-month range, the range most relevant to OTP Bank Romania's profile. In situations where the 12-month migration does not generate relevant results, long-term migration matrices will be used. In order to calculate the expected loss over a one-year horizon and the remaining life, default probabilities should be broken down to incremental levels for each remaining life year. Point-in-time values are obtained by successive iterations consisting in multiplying the annualized matrix by successive power-ups according to the number of years left to maturity.

Estimation of anticipatory default probabilities is based on the Vasicek model for all incremental PD series obtained for each segment/category. The resulting PD (and PL) estimates are converted into modified PD estimates reflecting the expected state of the economy in line with 5 macroeconomic forecast scenarios. The input parameters required for the Vasicek model are determined from the OTP Group's macroeconomic model used in ICAAP to determine the correlations between GDP and other macro variables (eg exports, unemployment) and to determine the relationships between the macro variables and the default probabilities observed at the level of different segments.

During the modeling process, the Bank used the following macroeconomic variables (where appropriate data were available) based on the proposal of the OTP Research Center experts and the quarterly historical time series provided by them:

- annual GDP change (input parameters in the scenario);
- annual consumption change (C),
- annual export variation (EX),
- annual change in investments (I),
- annual change in the number of unemployed (UEMP);
- annual change in the number of people employed (PMM),
- annual nominal property price change (REP),
- Annual wage variation (W).

Generally, two crisis scenarios and three non-crisis scenarios are created, and expectations about macroeconomic conditions are reflected in these scenarios.
The origin of macroeconomic scenarios is always the forecasting scenario (estimated in OTP Bank's Research Department and used in financial planning), which is one of the five scenarios considered, and the other four scenarios derive from it.
Using the long-term GDP distribution determined by the Bank's macroeconomic model, confidence levels for the GDP projection were estimated. Based on the projected confidence level of the first year and the most recent value for it, the position of the forecasting scenario can be set in the hierarchy of the five possible scenarios.

The other four scenarios are technical scenarios, defined by expert rules:
• Crisis scenarios: Crisis scenarios show different levels of economic contraction (moderate and severe declines in GDP), so the impact of a crisis on portfolio quality can be estimated with greater accuracy.
• Non-Crisis Scenarios: Compared with the forecasting scenario, one of the non-crisis scenarios is more optimistic and the other more pessimistic (without crisis conditions), but there are possibilities for exceptions depending on the economic cycle. These scenarios are defined by OTP Bank experts and show different trajectories of GDP under normal circumstances.
Risk parameters and depreciation value are defined in each scenario. According to IFRS9, the final asset depreciation is calculated as weighted arithmetic means of the values in each scenario, where the weights are the likelihood of each scenario occurring.

In general, the share of scenarios depends on the position of the forecasting scenario. In the case of Romania, the forecasting scenario occupies the second position and the weights are as follows:

Scenario	Share
Positive	12%
Base Line	56%
Negative	12%
Light Crisis	15,7%
Severe Crisis	4,3%

- Loss in case of default (LGD) - for unsecured loans granted to individuals is estimated based on historical information on loan recovery

- Exposure in case of default (EAD) - Depreciation will be calculated both at the balance sheet and off-balance sheet levels. Given that the expected loss is estimated on each residual maturity of the instrument, the exposure in case of default will be estimated in the same way.

In the calculation of impairment losses, future cash flows are updated to the effective interest rate on the original. As a result, only the effect of reducing cash flows is recognized as a loss - that amount is not affected by other factors (eg, changes in market interest rates or credit ratings of the borrower) that could affect the fair value of the asset.

Recognition of expected loss on loans on an individual basis

Exposures will be analyzed on an individual basis according to certain conditions (above a predefined materiality threshold, clients managed by the Restructuring and Recovery Department, clients with notifications according to the Debt Discharge Law no. 77/2016.

The Credit Monitoring Committee performs an analysis on a case-by-case basis regarding the opportunity of contamination of the members of the client groups in the scope of analysis on an individual basis.

The expected loss on loans is calculated on the basis of the amortized cost and the actual value based on the effective interest rate (EIR) of estimated future cash flows (voluntary and collateralized).

Future cash outflows will be estimated on the basis of the official financial statements of approved borrowers adjusted accordingly by the Bank. These estimates will be made in a forward-looking approach, based on macroeconomic trends, inflation, dividend payments, shareholders and other business inputs, etc. The unique effects will be considered and adjusted according to the previously observed behavior.

Cash flows related to foreign currency loans will be estimated as follows:

a / Cash flows will be estimated in the currency of the credit
b / Cash flows will be currently updated at the EIR rate, and
c / Cash flows will be converted to RON at the official exchange rate at the reporting date.

Exchange rate fluctuations influence the ability of borrowers to repay the currency risk, thus influencing credit risk. The impact of potential exchange rate changes should be assessed in the individual review process.

The cash flow from collateral shall be calculated using the collateral amount allocated to the liquidation. The liquidation value is relevant if there is a risk that the client becomes non-cooperative and, consequently, the Bank will go to forced execution.

Liquidation value is a collateral value which, in the event of default, can be capitalized immediately or within a relatively short time span and which includes all liquidation costs. Both estimates of future cash flows (operational and derived from collateralization) should include the negative component of expected cost estimates (eg valuation of real estate collateral, legal representation, security, etc.).

Reversal

If the amount of an impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment has been recognized, then the impairment is reversed through the income statement. However, the carrying amount may not be increased by an amount that exceeds the theoretically depreciated cost of the asset, calculated if the impairment would not have been recognized.

Renegotiated credits (forbearance):
If the terms of a credit agreement are renegotiated due to the borrower's financial difficulties and the renegotiation does not lead to the derecognition of the exposure, any impairment is measured by reference to the effective interest rate before the terms change. Forbearance exposures are defined as exposures for which restructuring measures have been taken to minimize the default risk. The most used restructuring measures are to grant concessions in the form of refinancing/rescheduling of a debtor in financial difficulties and/or to modify loan terms initially agreed upon by a contractual change (eg postponement, waiver or moratorium).

3.9 IFRS 9 transitory disclosures

The measurement category and the carrying amount of financial assets in accordance with IAS 39 and IFRS 9 at 1st of January 2018 are compared as follows:

Classification according to IAS 39	Classification according to IFRS 9	Opening balance according to IAS 39 as at 31 December 2017	Reclassification	Remeasurement due to loss allowance	Opening balance according to IFRS 9 as at 1 January 2018
Assets					
Investment securities Held-to-maturity	Investment securities at amortized cost	187,986		-279	187,707
Investment Securities Available for Sale	Investment securities at Fair Value through Other Comprehensive Income	403,014	-5,015	-568	397,432
Investment securities at Fair Value through Profit and Loss	Investment securities at Fair Value through Profit and Loss	4,289	7,621		11,910
Loans at amortized cost	Loans at amortized cost	6,916,906		-79,287	6,837,619
Liabilities					
Provision for loan commitments and financial guarantees	Provision for loan commitments and financial guarantees	-2,305		-25,595	-27,899
Equity					
Reserves AFS	Reserves FVTOCI	-10,873	-2,038		-12,911

The amount of RON 568 thousand which represents the loss allowances for Investments securities at fair value through other comprehensive income is not decreasing the value of the asset, being considered a reserve.activului, fiind considerată o rezervă.

3.10 Tangible and intangible assets

Tangible assets consisting of buildings, plant and equipment are initially recognized at cost. Subsequent to initial recognition as assets, the land, the buildings, and other tangible assets are revalued.

The Bank carries out a revaluation of fixed assets with sufficient regularity to ensure that the carrying amount of these elements is not significantly different from that which would be determined using fair value at the end of the reporting period.

The last revaluation of land and buildings was carried out in the last quarter of 2018 by an independent evaluator, the fair value is determined based on market values and where market values could not be determined, the independent evaluator estimated fair value using an income or a depreciated replacement cost approach.

The evaluation was recognized by modifying the gross value and the accumulated depreciation of each asset so that its carrying amount is also the revalued amount.

If the carrying amount of an asset is increased as a result of the revaluation, the Bank recognizes the increase in other comprehensive income and against equity, by way of revaluation reserves. The increase is recognized in profit and loss to the extent that it reverses a revaluation decrease of the same asset, previously recognized in profit or loss.

If the carrying amount of an asset is impaired as a result of the revaluation, the Bank recognizes the decrease in Profit and Loss. The decrease is recognized first by reducing the balance of revaluation reserves recorded in other comprehensive income and if the decrease is higher than existing revaluation reserves than it is recognized in the profit and loss.

The revaluation reserves included in equity, in respect of a fixed asset which is derecognized, is transferred directly to retained earnings.

Intangible assets are revalued and their value is the revaluation value as at the date of the revaluation, less accumulated depreciation and impairment adjustments recognized over the estimated period of the useful life of 1-5 years. They represent licenses and software applications acquired or developed by the Bank.

The Bank includes in this category mainly the development of computer software, which is depreciated with the straight-line method over a period of 3 years.

Impairment charges/depreciation of tangible and intangible assets are recognized in the Income statement under caption "Amortization of tangible and intangible assets". Land and works of art are not depreciated. Assets under construction are not amortized until putting into use. Maintenance and repairs are recognized in the profit and loss account at the time of their realization and improvements are capitalized to the asset's

Type of asset	Lifetime (years)	The rate of depreciation (in percentage %)
ATMs	8	12,5%
Telecommunications equipment	Max 5	20%
Furniture	Max 10	10%
Stationery and Office Equipment	Max 4-5	20% - 25%
Computers	4	25%
Safe deposit boxes	Max 20	5%
Means of conveyance	6	16,7%
Facilities air conditioning	6-8	12,5% - 16,7%
Buildings	Max 50	2% - 10%

carrying amount.

All tangible and intangible assets, except land, are depreciated using the straight-line method to allocate their cost over estimated useful lives as follows:
The carrying values of property, equipment, and software are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the greater of net selling price and value in use.

Gains and losses on the disposal/sale of fixed assets are calculated by comparing the sales price with their carrying amounts.

At the end of the financial year, the Bank reviews the carrying amounts of property, plant and the estimated useful lives and depreciation methods. The Bank asseses also the recoverable amount and the impairment loss (if any).

When the carrying amount of premises and equipment is higher than the estimated recoverable amount, the carrying amount is written down to its recoverable amount by recognizing an expense in the income statement. If the estimated recoverable amount exceeds the carrying amount of an asset for which there was previously recognized an impairment adjustment, the adjustment is reversed in the income account, partially or entirely, depending on the actual case.

An impairment loss of tangible assets other than land and buildings is recognized in profit or loss. An impairment loss of land and buildings is recognized in other comprehensive income until the revaluation surplus previously recognized in the Profit and Loss Account to the extent that the impairment loss exceeding revaluation surplus for that same asset.

At the end of the financial year, the Bank assesses whether there is any indication that an impairment loss recognized in prior periods for an asset no longer exists or has decreased. If any such indication exists, the entity estimates the recoverable amount of the asset. If the estimated recoverable amount exceeds the carrying amount of an asset, a reversal of an impairment loss is recognized.

3.11 Assets held for sale

The Bank classifies as assets held for sale any assets obtained during the enforcement of collaterals from customers with overdue debts and for which the carrying amount will be recovered mainly through a sale transaction.

The Bank also may classify as assets held for sale fixed assets that it intends to sell and has used them previously for its own activity or that it has had in order to earn rent or for capital gain.

The conditions for an asset to be classified as held for sale are:

- Its carrying amount will be recovered mainly through a sale transaction;
- The asset is available for immediate sale;
- There is a plan to sell the asset and a schedule to locate a buyer and the sale is probable;

Assets classified as held for sale are measured at the lower of carrying amount and fair value fewer costs to sell.

Upon initial recognition of an asset designated as held for sale, in the case when the asset has been acquired during foreclosure, the fair value is the value of the collateral used for provisioning of loans while the carrying amount of the asset is the value of the collateral. If the carrying amount is greater than the fair value, the value of the asset is written down to the fair value, by recognizing an adjustment for impairment.

On subsequent measuring, the fair value is determined by further reducing the revalued value (revaluation of tangible assets is made by an authorized evaluator) by the percentage used to determine the recoverable amount for the property pledged as collateral. If the fair value increase compared to previous assessments, the impairment adjustment is released up to the carrying amount of the asset.
After being classified as held for sale, the assets are not amortized.

3.12 Investment property

Investment properties are recognized as assets if, and only if, it is probable that future economic benefits associated with Bank be gained and the investment cost can be measured reliably. An asset can be classified as investment property if it is held to earn rentals or for capital gain.

Initial and subsequent measurements of current assets classified as investment property are carried at cost. Real estate investments are stated at acquisition cost, less accumulated depreciation and impairment adjustments.

3.13 Leasing

A Lease is defined as an agreement whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for the agreed period of time.

Leases can be accounted for as finance leases or operating leases, base on the following criteria: if the lease in question is a short-term leasing (operational lease), in which case the payment of rent is recognized in profit or loss and the only impact in the Bank statement of financial position refers to the timing of the payments; if the leasing is similar in nature to that of a funding arrangement for the acquisition of an asset (financial leasing), in which the financial statement presentation the tiebreaker will be the legal form of the transaction and there will consider the economic nature, considering that the asset was purchased by the user of the lease.

3.14 Interest-bearing loans and borrowing costs

Borrowings are initially measured at fair value. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost, with any difference between cost and redemption value being recognized in income over the period of the borrowings.

Costs for the amounts borrowed are recognized in profit and loss in the period in which they occur.

3.15 Derivatives

In the ordinary course of business, the Bank is a party to contracts for derivative financial instruments, which represent a very low initial investment compared to the notional value of the contract. Generally, derivative financial instruments include currency forward and swap agreements. The Bank mainly uses these financial instruments for business purposes and to hedge its currency exposures associated with transactions in financial markets.

Derivative financial instruments are initially recognized at acquisition cost, which includes transaction expenses and which is subsequently re-measured to fair value.

Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. The Bank adopts multi-curve valuation approach for calculating the net present value of future cash flows – based on different curves used for determining forward rates and used for discounting purposes. It shows the best estimation of such derivative deals that are collateralized.

There is no other credit value (CVA), debit value (DVA) or funding value (FVA) adjustment applied.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in profit or loss and are included in the separate statement of recognized income for the period. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Fair value hedge is a hedge of the exposure to changes in fair value of a recognized asset or liability or unrecognized firm commitment, or a component of any such item, that is attributable to a particular risk and could affect profit or loss.

The Bank determines the fair value of both hedged item and hedging instrument at the reporting date, recognizes any change in fair value (gain or loss) on the hedging instrument in profit or loss and recognizes the hedging gain or loss on the hedged item in its carrying amount. The Bank makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instruments are expected to be highly effective in offsetting the changes in fair value of the respective hedged items during the period for which the hedge is designated.

The fair value hedge relationship is discontinued prospectively when the hedging instrument expires, is sold, terminated or exercised. If the hedge no longer meets the criteria for hedge accounting the Bank revokes the designation.

When the hedge relationship is terminated and the hedging instrument is not closed out, it is removed from the fair value hedge specific portfolio and recorded as a standalone derivative in another portfolio. Any adjustment arising to the carrying amount of a hedged financial instrument for which the effective interest method is used shall be amortized to profit or loss.

3.16 Taxation

The current tax is the amount of income taxes payable in respect of the taxable profit, computed in accordance with Romanian tax rules and accrued for in the period to which it relates.

Deferred tax is provided, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. The tax rate for both current and deferred tax is 16% (2017: 16%).

Deferred tax assets and liabilities are not recognized if the temporary difference arises from initial recognition, other than in a business combination, of assets and liabilities in a transaction that affects neither the taxable profits nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

The temporary differences arise mainly from impairment of loans and advances to customers, tangible and intangible assets, revaluation of available for sale financial assets and tax losses carried forward (see Note 28).

Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax liability is generally recognized for all taxable temporary differences. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available within the next 5 years.

3.17 Assets / contingent liabilities

A contingent liability is:

(a) a possible obligation arising from past events and whose existence will be confirmed only by the occurrence or not of one or more uncertain future events not wholly within the control of the Bank; or
(b) a present obligation that arises from past events but is not recognized because there are no safety exit cash flows to settle those debts or the amount of debt cannot be assessed.

Contingent liabilities are not recognized in the financial statements but are disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank.

A contingent asset is not recognized in the accompanying financial statements but is disclosed when an inflow of economic benefits is probable.

3.18 Provisions

A provision is recognized when the Bank has a present obligation (legal or constructive) as a result of a past event and 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. Where the effect in financial statements of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Restructuring

A restructuring provision is recognized when the Bank has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

3.19 Cash and cash equivalents

Cash and cash equivalents comprise balances readily convertible to a known amount of cash on hand, current accounts, deposits and placements with banks and the National Bank of Romania, treasury bills issued by the Government with an original maturity of fewer than 90 days (if any), including minimum reserves.

3.20 Related parties

A counterparty is considered related to the Bank if:

a) any entity over which the credit institution exercises control;
b) any entity in which the credit institution holds shares;
c) an entity that controls the credit institution;
d) any entity in which the entities referred to in points. c) exercises control or has holdings;
e) shareholders who have qualified to hold in the capital of the credit institution;
f) any entity in which the shareholders

mentioned in the letter. e) exercises control or have holdings;

g) members of the management of the credit institution and the people who hold key positions in the credit institution together with:
   I. entities in which they have / present direct or indirect interest; and
   II. (Ii) their close family members who are expected to influence, or be influenced by them in relation to the credit institution; they may include spouse and children; children of a spouse; dependents of the individual or of the spouse.

3.21 Employee benefits

Short-term employee benefits:

Short-term employee benefits include wages, salaries and social security contributions. Short-term employee benefits are recognized as expenses when the services are rendered.

Post-employment benefits:

The Bank pays the contribution to the Romanian State funds on behalf of its employees for health care, pension, and unemployment benefits.

3.22 Subsequent events

Events after the date of the preparation of the financial statements, that provide additional information about the Bank's position at balance sheet date and requiring significant corrections of financial data (events that require adjustments) are properly reflected in the financial statements.

Events after the date of preparation of financial statements that do not require adjustments are disclosed in the notes.

3.23 Going Concern

These financial statements have been prepared on a going concern basis. The Bank's ability to continue as a going concern is dependent on its ability to generate sufficient future cash flows and profit in order to meet capital requirements, finance normal operations and to comply with regulatory requirements.

Management is confident that financial support will be provided by the shareholders if required, and that the Bank will be able to generate sufficient future cash flow to continue its operations in the foreseeable future.

3.24 Accounting for the effects of hyperinflation

Romania has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date.

As the characteristics of the economic environment of Romania indicate that hyperinflation has ceased, effective from 1st of January 2004 the Bank no longer applies the provisions of IAS 29.

Accordingly, the amounts expressed in the measuring unit current at 31 December 2003 are treated as the basis for the carrying amounts in these individual financial statements.

3.25 Basic earnings per share

The Bank reports earnings per share attributable to the holders of ordinary shares. The Bank calculated earnings per share on ordinary shares by dividing profits attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding during the period. Details of Earnings per Share (EPS) are presented in Note 31.

NOTE 4: RISK MANAGEMENT

The primary risks associated with financial instruments that the Bank faces are:

- market risk – which refers to exposures to market factors like interest rate,
- credit risk
- liquidity risk
- operational risk

Other risks managed by the bank are reputational risk and risk due to outsourcing activities.

The "Risk Management" Note presents information's related to Bank's exposure to each type of risk mentioned above, its' objectives, policies as well as assessment and management processes.

Bank's risk related policies and management approach are assessed periodically and updated to the changes that occurred on each analyzed area of activity.

Exposure to higher risk Eurozone countries

Concerns about the creditworthiness of certain Eurozone countries persisted during 2018.

Eurozone member states have asserted that they will continue to provide support to countries under existing financial assistance program until they have regained market access provided they comply with such programs. At the same time, the European Commission has requested additional fiscal tightening measures for certain countries (Italy).

In view of limiting potential losses due to country risk exposure, the bank is managing country exposure through a system of limits which are set annually and updated periodically according to market evolutions, in compliance with a prudent policy, based on the experience of OTP Bank Plc Hungary.
The Bank didn't register impaired sovereign exposures as of 31 December 2018.

4.1 Market Risk Management

Market risk is the risk of loss related to balance-sheet and off-balance sheet items due to adverse changes in market prices, such as, for example, stock prices, interest rates, currency exchange rates.

The Bank's objective in market risk management is to ensure appropriate management of the risks generated by trading activities, through the implementation of procedures, models and adequate application of monitoring and risk control related with trading activities.

In view of limiting potential losses due to market risk exposure, the bank manages market risk exposure by means of a set of limits which shall be set annually and updated periodically according to market conditions, in compliance with a prudent policy, based on the experience of OTP Bank Plc Hungary.

The limits are established according to the potential loss and the value of the Bank's equity capital. Market risk limits are set up by OTP Bank Plc Hungary and are managed in Market Risk Portal system.

With respect to market risk management the Bank takes into consideration:

- to monitor the compliance with the existing limits and to report any limit excess to the Bank's management;
- to revise and submit for approval any application/request for new limits establishment;
- to prepare and to transmit consolidated reports regarding market risks to the Operative Risk Committee and Supervisory Board.

4.1.1 Interest Rate Risk (Banking book)

Interest rate risk is the risk of recording losses or not to achieve expected profits as a result of fluctuations in the level of market interest rates. The management of this risk concerns balance sheet items, as well as off-balance sheet items sensitive to changes in interest rates.

OTP Bank Romania S.A. assumes a conservative approach towards risks and has implemented in this regard a risk management system that identifies, evaluates, manages and controls the risks related to its activity in a prudent manner.

Regarding the interest rate risk on the Banking book, the Bank manages its exposure with the aim of limiting the potential losses due to unfavorable fluctuations of the interest rates, in such a way that these losses do not threat the profitability of the Bank, the own funds or the safety of operations.

The Bank grants loans with mainly variable interest rate indexed by reference (ex.: Euribor, Robor) and aims to harmonize the financing structure with the structure of assets and other liabilities so as to maintain a low-interest rate risk exposure.

In 2018, the Bank concentrated on local currency loans and the weight of fixed interest rate loans in total portfolio increased in the case of consumer loans. On the liabilities side, the bank maintained the maturity structure for client deposits.

The monitoring of the exposure to interest rate risk of banking book and the compliance with the internal limits is done at least monthly, within the Asset and Liability Management Committee.

For the assessment of the interest rate risk on the Banking book, the Bank uses re-pricing gap analysis, modified duration analysis and stress test scenarios estimating the possible effects of interest rate changes on bank profits and economic value. The methodology used for measuring the impact of an interest rate shock in the economic value of the Bank is the standardized one from the NBR Reg. No. 5/2013 with further amendments, adjusted for optionality risk.

At 31st December 2018, the Bank had low exposure to the interest rate risk on banking book, 2.61% of own funds (4.49% as of December 2017). The decrease mainly resulted from the inclusion of non-maturity deposits (current accounts) in the computation.

During 2018, the exposure to the interest rate risk on banking book had a stable level not exceeding a medium-low level.

Interest rates on loans granted to customers	December 31, 2018				December 31, 2017			
	CHF	EUR	RON	USD	CHF	EUR	RON	USD
Consumer	13,88	15,97	10,83	15,23	12,88	14,65	10,58	13,62
Personal loans with mortgage	4,57	4,90	5,85	6,77	4,5	5,04	4,22	6,33
Housing	4,15	4,09	5,39	3,82	3,86	4,14	3,91	2,53
Corporate loans	2,29	3,33	5,94	5,19	2,14	3,68	4,63	4,91

Thousand RON	December 31, 2018	December 31, 2017
Impact in the economic value of the Bank of a 200 bp interest rate shock (thousand RON)	32,897	39,215
Own funds (thousand RON) IFRS	1,281,713	960,773
Exposure (% of Own funds)	2,57%	4,08%
Impact in earnings for one year of a 200 bp interest rate shock (thousand RON)	9,336	20,570
Exposure (% of Own funds)	0,73%	2,14%

The following is a summary of the Bank's interest rate gap position as of December 31, 2018:

December 31, 2018	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	over 5 years	Total
ASSETS						
Accounts with the National Bank of Romania	966,354	-	-	-	-	966,354
Current accounts and deposits at banks	598,086	-	-	-	-	598,086
Investment securities	107,851	-	-	479,156	400,437	987,445
Gross loans	1,238,272	2,830,940	3,755,183	241,245	31,137	8,096,777
Total assets	**2,910,563**	**2,830,940**	**3,755,183**	**720,401**	**431,574**	**10,648,662**
LIABILITIES						
Demand deposits from banks	38,301	-	-	-	-	38,301
Term deposits from banks	27,537	-	373,112	-	-	400,649
Demand deposits from customers	1,941,822	22,385	100,734	537,249	-	2,602,190
Term deposits from customers	1,506,078	1,757,640	1,127,800	30,040	8,915	4,430,473
Borrowings	-	2,083,429	6,742	-	-	2,090,171
Total liabilities	**3,513,738**	**3,863,454**	**1,608,388**	**567,289**	**8,915**	**9,561,784**
Instrumente derivate și spot - NET	511,969	21,060	52,177	-184,768	-400,437	2
Assets-Liabilities GAP interest rate sensitivity	-91,206	-1,011,454	2,198,972	-31,656	22,222	1,086,880
Assets-Liabilities cumulative GAP interest rate sensitivity	**-91,206**	**-1,102,660**	**1,096,312**	**1,064,656**	**1,086,878**	

The following is a summary of the Bank's interest rate gap position as of December 31, 2017:

December 31, 2017	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	over 5 years	Total
ASSETS						
Accounts with the National Bank of Romania	991,481	-	-	-	-	991,481
Current accounts and deposits at banks	99,660	-	-	-	-	99,660
Investment securities	11,910	-	71,388	236,796	267,840	587,934
Gross loans	1,018,456	2,511,100	3,449,333	128,138	29,749	7,136,776
Total assets	**2,121,507**	**2,511,100**	**3,520,721**	**364,934**	**297,589**	**8,815,851**
LIABILITIES						
Demand deposits from banks	11,089	-	-	-	-	11,089
Demand deposits from customers	270,492	-	2,104,017	-	-	2,374,509
Term deposits from customers	1,428,414	1,803,565	797,908	46,618	19,509	4,096,014
Borrowings	-	1,281,940	36,159	-	-	1,318,099
Total liabilities	**1,709,995**	**3,085,505**	**2,938,084**	**46,618**	**19,509**	**7,799,711**
Instrumente derivate și spot - NET	265,627	262	-	-	-267,840	-1,951
Assets-Liabilities GAP interest rate sensitivity	677,137	-574,143	582,637	318,316	10,240	1,014,187
Assets-Liabilities cumulative GAP interest rate sensitivity	**677,137**	**102,944**	**685,631**	**1,003,947**	**1,014,187**	

4.1.2 Interest Rate Risk (Trading book)

The interest rate risk refers to the fluctuation in the value of financial instruments included in the trading book due to the changes in the level of market interest rates.

Starting with 2017, limits were approved for trading on interest rates sensitive instruments such as bonds issued by the Romanian Government, interest rate swaps, FX swaps, Money Market deposits, and placements. The adequate assessment and monitoring of the resulting interest rate risk are ensured by the set-up of a limits system and the use of appropriate risk management systems.

The bank established the following types of limits: bond position limit, Value at Risk (VaR) limit, Basis Point Value limits (per currency and for Total) and stop-loss limits. These limits are monitored using the Kondor+ and Market Risk Portal systems.

The VaR measure estimates the potential loss over a given holding period for a specified confidence level. The Bank uses a historical VaR approach (with an Exponentially Weighted Moving Average methodology used for setting weights to P&L observations) which allows to easily aggregate risk factors and trading desk VaR figures, therefore giving the opportunity to calculate Treasury level VaR.

The Bank uses a 1-day 99% VaR number which reflects that, with a probability of 99%, the daily loss will not exceed the reported VaR.

4.1.3 Currency risk

Currency risk is the risk of loss resulting from changes in the level of foreign exchange rates.

The Bank manages its exposure to movements in exchange rates by permanently adjusting its assets and liabilities mix, based on the market movements in exchange rates.

The Bank may trade and take positions in the followings currencies: EUR, USD, GBP, CHF, CAD, JPY, HUF, AUD, SEK, DKK, PLN, NOK, and CZK.

The open foreign exchange currency position is managed continuously on an automatic basis within the Kondor+ system according to the internal rules and also considering the NBR regulations.

The bank sets net FX open position limits (per currency and for total) which are monitored on a daily basis by the Operational and Market Risk Department using the Market Risk Portal system.

Also, Value at Risk (VaR) limits is established which are monitored throughout OTP Bank Group using the Market Risk Portal system. The VaR risk measure estimates the potential loss in pre-tax profit over a given holding period for a specified confidence level. The Bank uses a historical VaR approach (with an Exponentially Weighted Moving Average methodology used for setting weights to P&L observations) which allows to easily aggregate risk factors and trading desk VaR figures, therefore giving the opportunity to calculate Treasury level VaR.

The Bank uses a 1-day 99% VaR number which reflects, with a probability of 99%, that the daily loss will not exceed the reported VaR.

The following is a summary of the Bank's exposure towards currency risk as at December 31, 2018, and December 31, 2017 (amounts in thousand RON equivalent):

31 December 2018							
Currency	Assets	Liabilities and equity	Net position of balance sheet	Net position of off-balance sheet	Total	Gains/(losses) incurred for a change of +1% in currency exchange rate	Gains/(losses) incurred for a change of -1% in currency exchange rate
EUR	3,808,085	3,383,275	424,810	-384,413	40,397	404	-404
USD	277,562	306,373	-28,811	28,512	-299	-3	3
CHF	380,905	171,302	209,603	-221,698	-12,095	-121	121
HUF	446,335	562,195	-115,860	115,711	-149	-1	1
OTHER	84,744	27,937	56,807	-56,424	383	4	-4
Total	**4,997,631**	**4,451,082**	**546,549**	**-518,312**	**28,237**	**283**	**-283**

31 December 2017							
Currency	Assets	Liabilities and equity	Net position of balance sheet	Net position of off-balance sheet	Total	Gains/(losses) incurred for a change of +1% in currency exchange rate	Gains/(losses) incurred for a change of -1% in currency exchange rate
EUR	3,494,711	2,858,141	636,570	-630,720	5,850	59	-59
USD	99,040	316,589	-217,549	218,398	849	8	-8
CHF	384,352	188,361	195,991	-186,263	9,728	97	-97
HUF	35,912	164,161	-128,249	128,232	-17	0	0
OTHER	30,701	24,330	6,371	-5,023	1,348	13	-13
Total	**4,044,716**	**3,551,582**	**493,134**	**-475,376**	**17,758**	**177**	**-177**

The assets and liabilities split by currencies into RON equivalent amounts, as of December 31, 2018, is presented below:

December 31, 2018	EUR	USD	CHF	HUF	Other CCY	Total other CCY	RON	Total
ASSETS								
Cash	111,394	21,592	20,526	72,682	73,469	299,663	169,813	469,476
Current accounts and deposits at banks	12,718	5,120	24,150	372,813	11,273	426,074	172,012	598,086
Accounts with the National Bank of Romania	692,366	-	-	-	-	692,366	273,988	966,354
Securities at amortized cost	-	-	-	-	-	-	288,678	288,678
Loans and advances to customers, net	2,453,526	85,726	335,567	753	-	2,875,572	4,828,420	7,703,992
Loans and advances to banks	2,028	3	4	1	-	2,036	33	2,069
Investment securities at fair value through profit and loss	2,457	4,505	-	-	-	6,962	4,464	11,426
Investment securities at fair value through other comprehensive income	528,216	156,640	-	-	-	684,856	13,345	698,201
Investment in Associates and Subsidiaries	-	-	-	-	-	-	11,923	11,923
Derivatives	1,280	-	-	80	-	1,360	5,631	6,991
Derivatives hedge accounting	-	3,142	-	-	-	3,142	-	3,142
Current tax asset	-	-	-	-	-	-	13,019	13,019
Deffered tax asset	-	-	-	-	-	-	12,490	12,490
Other assets, net	4,100	834	658	6	2	5,600	65,926	71,526
Total assets	**3,808,085**	**277,562**	**380,905**	**446,335**	**84,744**	**4,997,631**	**5,859,742**	**10,857,373**
LIABILITIES								
Due to Banks	373403	32595	-	290	2,596	408,884	30,066	438,950
Demand deposits from banks	-	20,369	-	290	2,596	23,255	15,046	38,301
Term deposits from banks	373,403	12,226	-	-	-	385,629	15,020	400,649
Due to customers	1,574,133	270,742	151,430	561,671	25,169	2,583,145	4,449,518	7,032,663
Demand deposits from customers	593,312	131,294	23,840	218,267	8,752	975,465	1,626,725	2,602,190
Term deposits from customers	980,821	139,448	127,590	343,404	16,417	1,607,680	2,822,793	4,430,473
Borrowings	1,387,417	-	-	-	-	1,387,417	702,754	2,090,171
Derivatives	1,280	-	-	80	-	1,360	6,910	8,270
Derivatives hedge accounting	25,666	272	-	-	-	25,938	-	25,938
Provisions	10,173	501	19,540	-	1	30,215	93,512	123,727
Other financial liabilities	11,203	2,263	332	154	171	14,123	103,751	117,874
Total liabilities	**3,383,275**	**306,373**	**171,302**	**562,195**	**27,937**	**4,451,082**	**5,386,511**	**9,837,593**
Net Assets / Liabilities	**424,810**	**-28,811**	**209,603**	**-115,860**	**56,807**	**546,549**	**473,231**	**1,019,780**

December 31, 2017	EUR	USD	CHF	HUF	OTHER FCY	Total FCY	RON	Total
ASSETS								
Cash	67,615	7,728	10,302	11,713	28,081	125,439	147,463	272,902
Current accounts and deposits at banks	57,757	3,293	1,607	23,384	2,617	88,658	11,002	99,660
Accounts with the National Bank of Romania	805,942	-	-	-	-	805,942	185,546	991,488
Securities held-to-maturity	-	-	-	-	-	-	187,986	187,986
Loans and advances to customers, net	2,186,632	82,778	371,877	813	-	2,642,100	4,274,806	6,916,906
Loans and advances to banks	59	7	-	-	1	67	54	121
Investment securities - Available for sale according to IAS 39	371,053	-	-	-	1	371,054	31,960	403,014
Investment securities at fair value through profit and loss according to IAS 39	-	4,289	-	-	-	4,289	-	4,289
Investment in Associates and Subsidiaries	-	-	-	-	-	-	8,611	8,611
Derivatives	1,407	2	-	-	-	1,409	864	2,273
Current tax asset	-	-	-	-	-	-	13,019	13,019
Deffered tax asset	-	-	-	-	-	-	32,010	32,010
Other assets, net	4,245	943	566	2	2	5,758	49,197	54,955
Total assets	**3,494,710**	**99,040**	**384,352**	**35,912**	**30,702**	**4,044,716**	**4,942,518**	**8,987,234**
LIABILITIES								
Due to Banks	-	-	-	48	-	48	11,041	11,089
Demand deposits from banks	-	-	-	48	-	48	11,041	11,089
Term deposits from banks	-	-	-	-	-	-	-	-
Due to customers	1,853,964	313,814	166,290	142,299	24,308	2,500,675	3,979,645	6,480,320
Demand deposits from customers	479,635	172,226	43,175	108,705	8,938	812,679	1,561,898	2,374,577
Term deposits from customers	1,374,329	141,588	123,115	33,594	15,370	1,687,996	2,417,747	4,105,743
Borrowings	968,103	-	-	-	-	968,103	350,901	1,319,004
Derivatives	1,407	2	-	-	-	1,409	3,502	4,911
Derivatives hedge accounting	24,475	-	-	-	-	24,475	-	24,475
Provisions	4,275	338	21,919	-	1	26,533	21,687	48,220
Other financial liabilities	5,917	2,435	152	21,814	21	30,339	74,515	104,854
Total liabilities	**2,858,141**	**316,589**	**188,361**	**164,161**	**24,330**	**3,551,582**	**4,441,291**	**7,992,873**
Net Assets / Liabilities	**636,570**	**-217,549**	**195,991**	**-128,249**	**6,371**	**493,134**	**501,227**	**994,361**

4.1.4 Equity Risk

Equity risk is the risk of loss resulting from changes in the level of prices of equity instruments and other financial instruments.

OTP Bank Romania's policy regarding equity risk management is not to have open positions on equity instruments.

During 2018, the Bank did not hold trading positions on equity instruments.

4.2 Credit Risk Management

The credit risk is associated with the loans granted by the Bank, is the risk that the customer will be unable to fulfill its obligations thus causing financial losses to the Bank.

The Bank's main objective regarding credit risk management was to maintain the portfolio quality by monitoring the evolution of a set of indicators which are detailed in the Risk Strategy for 2018.

The Bank's main objectives regarding credit risk management are:

- Developing a diversified portfolio, the performance of which does not excessively depend on the changes in the position of any particular sector, geographical region or debtor group, that ensures stable profitability in the long run;
- Increasing the profitability of the credit products;
- Credit approval and keeping assumable risks within limits;
- Increasing the capacity to collect overdue receivables;
- Maintaining the solvency indicator within normal limits so that the capital requirement for credit risk is not increasing excessively;
- Maintaining the portfolio quality by monitoring the evolution of a set of indicators which is detailed in Risk Strategy 2018.

The Bank's strategy regarding credit risk management includes:

- Putting a strong emphasis on preventing problems faced by borrowers;
- Improving debt collection;
- Customer loyalty program for individuals by offering new products facilities in accessing credit;
- Private individual lending to be performed exclusively in RON and also encouraging the financing of legal entities in the local currency;
- Developing and implementing a new scoring model for a personal loan in order to improve the quality of the unsecured loans portfolio;
- Developing and implementing two new behavioral scoring models, for personal loan and mortgage loan, to be used for evaluating SICR and establishing the stage of the loans as required by the provisioning methodology under IFRS 9;
- Involving the territorial network and the Corporate Banking Division in managing the problems customers are faced with;
- Monitoring new loan portfolio, especially for new consumer loans to individuals, through reports at least monthly and information presented for the Management Board and Supervisory Board of the Bank.

The credit risk is managed in compliance with lending norms approved by the Board of Directors, based on the risk related type of products.

As part of the overall credit risk management, the credit concentration risk is actively managed using standard tools (e.g. analysis, assessment, the setting of internal limits, reporting and use of risk mitigation techniques as appropriate). The Bank aims not to take any excessive credit concentration risk. Credit concentration risk management procedures cover individual counterparties as well as economically connected groups, selected industry sectors and collateral providers. The system of internal limits is established such that the Bank complies with regulatory limits set in respect of concentration risk.

4.2.1 Individually impaired assets

The Bank regularly re-assesses all credit exposures that have already been specifically provided for, as well as all credit exposures that appear on the watchlist and which are classified as individually significant.

The breakdown of these individual provisions recorded for exposures on legal entities, structured by industry is as follows:

Individual provisions for exposure to legal entities	December 31, 2018	December 31, 2017
Construction	38,988	27,769
Hotels and restaurants	263	-
Other Industries (Furniture, Food and beverages, Fashion, Chemical, Forestry)	26,411	29,071
Other services	10,335	9,952
Services	21,395	12,394
Trade and finance	55,853	83,464
Transportation	282	3,068
Total	**153,526**	**165,718**

4.2.2 Collaterals received from customers

In order to calculate the collateral coverage ratio of the loans granted to non-retail clientele (entities with or without legal personality) the Bank has established coefficients (acceptance limits) applicable to the collateral value (which can be: market value, face value, assessed value, guaranteed value, etc.) depending on the type of collateral. Acceptance limits, depending on the type of the collateral, are described below:

Description of collateral	Acceptance limit value
Balance of account, deposit instrument	100%
Government securities issued in Romania, government-guaranteed securities	95%
Foreign-issued government securities rated in class I-II, government-guaranteed securities	95%
Foreign-issued and Romanian banking debt securities or deposit instruments similar to securities, issued by a bank	
In the case of banks rated as I., II. and III.	75%
In the case of banks rated as IV. and V.	75%
Romanian and foreign shares listed and traded on the exchange or OTC	50%
Investment units issued by OTP Asset Management	
Investment units with low or medium risk profile (e.g. OTP Obligatiuni, OTP ComodisRo, OTP Euro Bond, OTP Dollar Bond)	80%
Investment units with low or medium risk profile (e.g. OTP Premium Protect)	70%
Investment units with medium to high or high-risk profile (e.g. OTP AvantisRo)	60%
Residential property	
First-ranking mortgage	85%
Second-ranking or any subsequent mortgage	85%
Commercial property **First-ranking mortgage on constructions**	
Holiday homes, weekend houses	70%
Offices	70%
Catering establishments (hotel, restaurant, guest-house etc.)	70%
Business sites (warehouses, etc.)	70%
Business outlets	70%
Commercial parts of buildings serving housing purposes (e.g. garages, storage room, business outlets) provided that they are separately marketable	70%
Factory buildings (production facilities, etc.)	60%
Business sites for agricultural purposes (farms, farmsteads, crop storage facilities, animal farming sites)	60%
Flats, houses or other buildings under construction	60%

Description of collateral	Acceptance limit value
First-ranking mortgage on land	
Urban land (intravilan)	75%
Agricultural land	80%
Other types of land	50%
Mortgage on inventories and other unspecified movable property	20%
Mortgage on vehicles (passenger car, motorcycle, commercial vehicle, aircraft, vessel)	50%
Mortgage on technological machines and equipment	40%
Claim against the state	100%
Claim against Agency for Payments and Intervention in Agriculture (APIA) in accordance with the conventions signed between APIA and the Bank	100%
Claims of class I-V against local governments and other budgetary agencies	80%
Claims against other persons or companies or claims arising from contracts relating to commercial services or from contracts relating to transactions with a term no longer than one year	50%
Guarantee or suretyship by the state	100%
The guarantee, suretyship or bill of a bank; letter of credit issued by a company and advised by a bank	
Bank rated as class I., II. and III.	100%
Bank rated as IV. and V.	100%
Joint and several suretyships	
Guarantee funds, credit insurance companies	100%
Municipalities rated as class I-II	100%
Municipalities rated as class III-IV	80%

At the reference date, the Bank has accepted the types of collaterals specified below:

Types of collaterals received for the loan portfolio (book value, capped to the covered exposure)	December 31, 2018	December 31, 2017
Cash collaterals	58,272	37,453
Bank guarantees and cash sureties	56,128	120,391
Guarantees from public administration	2,189	5,814
Revenue assignment	88,442	315,560
Assignment of other receivables	117,379	197,897
Registration of pledge for stock	779,307	882,663
Mortgages	4,694,049	4,103,997
Other	378,440	564,119
Securities - other securities	133,850	163,329
Total	**6,308,055**	**6,391,223**

4.2.3 Foreclosed collaterals

Collaterals repossessed through foreclosure / legal proceedings are classified according to their intended use, either as assets held for sale or investment property.

The net value of assets held for sale decreased during the period, reaching 4,206 thousand as of December 31, 2018 (5,989 thousand as of December 31, 2017).

Investment properties are measured initially at cost, including transaction costs in the initial measurement. After initial recognition, the Bank quantifies the investment property using the cost method. The net value of investment property is 461 thousand at December 31, 2018 (1,440 thousand at December 31, 2017).

The movement related to these assets during 2018, is presented below:

a) Net book value of assets held for sale:

Year	Opening balance	Additions	Disposals	Impairment	Closing balance
2018	5,989	2,656	-8,164	3,725	4,206
2017	13,322	621	-4,766	-3,187	5,989

b) The Bank recorded investment grade real estate property held to earn rentals. Investment properties are measured initially at cost. Transaction costs are included in the initial measurement. After initial recognition, the Bank measures investment property using the cost model. Movements related to these assets during 2018 and 2017 respectively are presented below.

The carrying value of investment property:

Year	Initial	Additions	Disposals	Adjust	Final
2018	1,440	338	-2,073	756	461
2017	2,675	1,248	-2,035	-448	1,440

4.2.4 The quality of loans receivable (within maturity as well as overdue loans receivable)

The structure of the loan portfolio by days of delay is shown below highlighting a clear picture of the quality of financial assets. If there are outstanding amounts (principal, interest, etc.) the entire loan is considered past due.

4.2.4.1. Quality of loan portolio (current and overdue)

December 31, 2018	Gross loans with identified provisions	Provision	TOTAL net loans
within maturity	7,237,863	169,242	7,068,621
0 - 15 days	397,786	33,107	364,679
16 - 30 days	67,411	7,774	59,637
31 - 60 days	95,264	20,694	74,570
61 - 90 days	60,094	18,256	41,839
91 - 180 days	59,162	25,638	33,524
more than 180 days	179,197	118,074	61,123
Total gross	**8,096,777**	**392,785**	**7,703,992**

December 31, 2017	Gross loans with identified provisions	Provision	TOTAL net loans
within maturity	6,317,656	65,386	6,252,270
0 - 15 days	319,818	9,137	310,681
16 - 30 days	72,096	2,465	69,631
31 - 60 days	93,343	9,519	83,824
61 - 90 days	62,335	11,030	51,305
91 - 180 days	63,473	31,283	32,190
more than 180 days	303,885	186,880	117,005
Total gross	**7,232,606**	**315,700**	**6,916,906**

For certain loans granted to customers, which were overdue for more than 90 days at the reporting dates, the Bank received collaterals of significantly higher amounts than the related exposures. Therefore, the total provision recorded by the Bank for these loans is less than the total exposure as at each of the reporting dates.

December 31, 2018	Overdue 1 to 30 Days	Overdue more than 30 Days	Gross loans	Provision	Carrying amount
Consumer	229,826	66,915	296,742	18,589	278,152
Corporate	46,950	2,168	49,118	2,550	46,568
Housing	128,772	32,061	160,834	1,978	158,856
Total	**405,549**	**101,145**	**506,693**	**23,117**	**483,576**

December 31, 2017	Overdue 1 to 30 Days	Overdue more than 30 Days	Gross loans	Provision	Carrying amount
Consumer	88,041	25,761	113,802	7,540	106,262
Corporate	26,598	6,783	33,381	2,666	30,715
Housing	261,019	98,727	359,746	9,408	350,338
Total	**375,658**	**131,271**	**506,929**	**19,614**	**487,315**

The table above shows the gross loans which are past due but not impaired accordingly to the Bank IFRS provision methodology and are presented based on the collective type of impairment.

4.2.4.3. Quality of loans individually impaired

December 31, 2018	Gross loans	Provision	Carrying amount
Corporate Normal Handled clients	130,366	38,811	91,555
Corporate Work Out Handled clients	200,905	114,716	86,190
Individuals	95,044	47,124	47,920
Total	**426,315**	**200,650**	**225,665**

December 31, 2018	Gross loans	Provision	Carrying amount
Low-fair risk	12,937	3,500	9,438
Watch list	31,764	11,761	20,003
Substandard	14,262	4,735	9,527
Doubtful	8,241	2,506	5,735
Loss	334,780	198,096	136,684
Total	**401,984**	**220,598**	**181,387**

4.2.5 Analysis of restructured loans and receivables, gross

Restructured loans, in gross amount of 330,022 thousand as of December 2018 (332,400 thousand as of December 31, 2017, and 347,988 as of December 31, 2016), represent loans for which the repayment terms have been rescheduled based on an agreement between the Bank and its clients in order to avoid early overdue payments.

The following table shows the quantitative analysis of the receivables that were classified as restructured loans as at the year-end (on balance sheet amounts):

	December 31, 2018		December 31, 2017	
	Gross loans	Provision	Gross loans	Provision
Retail loans 0 days past due	30,629	9,339	31,223	5,703
Overdue up to 30 days	6,606	1,580	6,348	839
Overdue from 31 to 90 days	11,465	6,451	3,063	700
Overdue from 91 to 180 days	8,761	3,328	-	-
More than 180 days	8,268	5,821	17,603	10,723
Retail loans - TOTAL	**65,727**	**26,520**	**58,237**	**17,965**
Retail loans 0 days past due	33,191	11,607	43,927	6,946
Overdue up to 30 days	8,700	3,082	10,456	960
Overdue from 31 to 90 days	9,806	595	12,785	4,122
Overdue from 91 to 180 days	1,853	478	-	-
More than 180 days	42,744	25,562	48,222	35,155
Retail loans - TOTAL	**96,294**	**41,324**	**115,389**	**47,183**
Corporate loans 0 days past due	101,309	31,661	82,498	7,831
Overdue up to 30 days	30,955	22,057	147	39
Overdue from 31 to 90 days	50	15	-	-
More than 180 days	35,688	26,693	76,129	39,370
Corporate loans - TOTAL	**168,001**	**80,426**	**158,774**	**47,241**
TOTAL	**330,022**	**148,270**	**332,400**	**112,389**

4.2.6 Concentration of credit risk to counterparties – other banks

The following table presents the counterparty risk related to the deposits placed by the Bank with other credit institutions, based on ratings published by Moody's:

	December 31, 2018		December 31, 2017	
	Amounts in thousands RON equiv,	Moody's Rating for counterparty's country of origin	Amounts in thousands RON equiv,	Moody's Rating for counterparty's country of origin
Danske Bank Aktieselskab	1,017	Aaa	324	Aaa
Deutsche Bank AG	1,117	Aaa	951	Aaa
Mizuho Corporate Bank LTD	48	A1	157	A1
OTP Bank PLC	382,466	Baa3	25,360	Baa3
Powszechna Kasa Oszczednosci Bank Polski Spolka Akcyjna	31	A2	60	A2
Skandinaviska Enskilda Banken AB (PUBL) Stockholm	951	Aaa	329	Aaa
UBS AG (Head Office - Zurich)	22,013	Aaa	1,560	Aaa
Banca Comercială Română S,A,	2,936	Baa3	2,214	Baa3
Commerzbank AG	-	Aaa	3,227	Aaa
JP Morgan Chase Bank National Association	1,612	Aaa	2,432	Aaa
Royal Bank of Scotland PLC	8,734	Aa2	788	Aa2
Banca de Export-Import a României Eximbank SA	2,070	Baa3	51,255	Baa3
Banca Transilvania S,A,	-	-	-	Baa3
CEC Bank S,A,	150,010	Baa3	-	Baa3
Credit Europe Bank (Romania) S,A,	17,002	Baa3	-	Baa3
Credit Agricole Bank Romania S,A,	-	Baa3	11,003	Baa3
Banca Comercială Feroviară SA	5,000	Baa3	-	Baa3
CommerzBank AG	3,061	Aaa	-	Aaa
Lloyds Bank PLC	18	Aa2	-	Aa2
TOTAL	**598,086**		**99,660**	

4.3 Liquidity Risk Management

The liquidity risk is associated either to the difficulty of an entity to raise necessary funds in order to meet all the commitments when they fall due or to the possibility of incurring losses if the entity has to sell assets in unfavorable conditions or has to attract more expensive supplementary funding.

The Bank's objective regarding liquidity risk is to maintain an adequate level of liquidity by ensuring the optimal mix of funding and lending transactions in order to achieve the budget.

As stated on the "Liquidity Management Strategy" and on the "Liquidity Risk Management policy" of the Bank, permanently improved and updated in compliance with the local requirements for a prudent regulation but also, in compliance with group requirements, OTP Bank Romania S.A. has implemented an internal system of identification, measurement, monitoring and control of the liquidity risk, structured on two levels: the current liquidity management – the continuity of the activity in normal conditions (the assurance of cash flows for normal business operations) and the management of liquidity on crisis situations – the continuity of the activity in different crisis conditions.

OTP Bank Romania S.A. manages the liquidity risk considering: the estimation of the cash flows needs and of the operative liquidity, the daily banking book structure, the liquidity GAP – on each currency and overall, the level and the structure of the liquid assets portfolio, the liquidity indicators having early warning limits internally established, the simulation regarding the liquidity indicators levels, the risk assessment on crisis situations by using stress tests.

If the indicators monitored in the reports enumerated above, register an attention or crisis level the Assets and Liabilities Committee evaluates the situation and disposes of necessary measures needed for the indicators to revert to normal levels. If the measures taken did not lead to an improvement of the monitored liquidity indicator, the alternative plan for liquidity management in crisis situations will be activated.

Strict monitoring and prudent management of liquidity are supervised by the Assets and Liabilities Management Committee.

Liabilities to clients due within one month principally include current accounts from which the clients are authorized to make withdrawals at call. The Bank's historical experience shows, however, that these accounts represent a stable source of funding.

During 2018, the bank obtained new funding from the OTP Group, in cumulated value of 96.7 mln EUR and 100 mln RON (including refinancing within Group of transferred loans portfolio) and extended the maturity of a 250 mln RON financing from the OTP Group, in order to sustain the activity of granting loans and to improve the available liquidity and the level of LCR.

At December 31, 2018, the aggregate value for stand-by credit facilities contracted with the parent bank with purposes of use in a liquidity crisis (and unused at December 31, 2018) represent 746,224 thousand RON equivalent (1,351,313 thousand as at December 31, 2017). Considering that the overall available liquidity increased compared to the previous year, the value of the stand-by credit lines with the parent bank has been reduced.

The following tables show an analysis of financial assets and liabilities according to their remaining maturities, reflecting the remaining period between the balance sheet date and the contractual maturity date (as of December 31, 2018, and December 31, 2017).

Ecart de lichiditate

December 31, 2018	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	over 5 years	No fixed maturity	Total
ASSETS							
Cash	469,476	-	-	-	-	-	469,476
Current accounts and deposits at banks	598,086	-	-	-	-	-	598,086
Accounts with the National Bank of Romania	966,354	-	-	-	-	-	966,354
Securities amortised cost	-	-	-	288,678	-	-	288,678
Loans and advances to customers, net	124,595	605,100	1,549,701	1,251,014	4,173,582	-	7,703,992
Loans and advances to banks	2,069	-	-	-	-	-	2,069
Investment securities at fair value through other comprehensive income	96,425	-	-	274,780	315,665	11,331	698,201
Investment securities at fair value through profit and loss	-	-	-	-	-	11,426	11,426
Investment in Associates and Subsidiaries	-	-	-	-	-	11,923	11,923
Derivatives	6,991	-	-	-	-	-	6,991
Derivatives hedge accounting	3,142	-	-	-	-	-	3,142
Other assets, net	-	-	-	-	-	71,526	71,526
Total assets	**2,267,138**	**605,100**	**1,549,701**	**1,814,472**	**4,489,247**	**106,206**	**10,831,864**
LIABILITIES							
Due to Banks	60,542	5,005	373,403	-	-	-	438,950
Demand deposits from banks	38,301	-	-	-	-	-	38,301
Term deposits from banks	22,241	5,005	373,403	-	-	-	400,649
Due to customers	4,022,801	1,160,341	1,171,782	658,105	19,634	-	7,032,663
Demand deposits from customers	2,602,190	-	-	-	-	-	2,602,190
Term deposits from customers	1,420,611	1,160,341	1,171,782	658,105	19,634	-	4,430,473
Borrowings	2,915	-	-	699,585	1,387,671	-	2,090,171
Derivatives	8,270	-	-	-	-	-	8,270
Derivatives hedge accounting	25,938	-	-	-	-	-	25,938
Provisions	-	-	-	-	-	123,727	123,727
Other financial liabilities	-	-	-	-	-	117,874	117,874
Total liabilities	**4,120,466**	**1,165,346**	**1,545,185**	**1,357,690**	**1,407,305**	**241,601**	**9,837,593**
Net liquidity GAP	**-1,853,328**	**-560,246**	**4,516**	**456,782**	**3,081,942**	**-135,395**	

Ecart de lichiditate

December 31, 2017	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	over 5 years	No fixed maturity	Total
ASSETS							
Cash	272,902	-	-	-	-	-	272,902
Current accounts and deposits at banks	99,660	-	-	-	-	-	99,660
Accounts with the National Bank of Romania	991,488	-	-	-	-	-	991,488
Securities held-to-maturity	-	-	55,871	132,115	-	-	187,986
Loans and advances to customers, net	604,400	544,733	1,395,052	966,578	3,406,143		6,916,906
Loans and advances to banks	121	-	-	-	-	-	121
Investment securities - Available for sale according to IAS 39	-	-	-	-	-	403,014	403,014
Investment securities at fair value through profit and loss according to IAS 39	-	-	-	-	-	4,289	4,289
Investment in Associates and Subsidiaries	-	-	-	-	-	8,611	8,611
Derivatives	2,273	-	-	-	-	-	2,273
Derivatives hedge accounting	-	-	-	-	-	54,955	54,955
Other assets, net	**1,970,844**	**544,733**	**1,450,923**	**1,098,693**	**3,406,143**	**470,869**	**8,942,205**
LIABILITIES							
Due to Banks	11,089	-	-	-	-	-	11,089
Demand deposits from banks	11,089						11,089
Term deposits from banks	-	-	-	-	-	-	-
Due to customers	3,340,327	1,029,927	1,090,452	981,035	38,579	-	
Demand deposits from customers	2,374,577					-	2,374,577
Term deposits from customers	965,750	1,029,927	1,090,452	981,035	38,579	-	4,105,743
Borrowings	-	-	9,040	27,119	1,282,845	-	1,319,004
Derivatives	4,911	-	-	-	-	-	4,911
Derivatives hedge accounting	24,475	-	-	-	-	-	24,475
Provisions	-	-	-	-	-	48,220	48,220
Other financial liabilities	-	-	-	-	-	104,854	104,854
Total liabilities	**3,369,713**	**1,029,927**	**1,099,492**	**1,008,154**	**1,321,424**	**153,074**	**7,981,783**
Net liquidity GAP	**-1,409,958**	**-485,194**	**351,431**	**90,539**	**2,084,719**	**317,795**	

Taking into consideration the specificity of the banking activity, deposits taken from non-banking clients mainly have maturities less than 12 months, still, these deposits are renewed in a significant proportion at each maturity date. Client deposits are supplemented by long term Group Funding. Placements made by the Bank other than client loans have a maturity of fewer than 3 months or are liquid assets that can be sold/ used as collateral to finance a potential liquidity shortfall.

The fair value of the Bank's Financial Assets and Liabilities

The fair value of the Bank's financial assets and liabilities is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Where available, fair value estimates are made based on quoted market prices. In circumstances where the quoted market prices are not readily available, the fair value is estimated using discounted cash flow models or other pricing models as appropriate. Market inputs are used in valuation models to the maximum extent. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly impact on the estimates. Therefore, the estimated market fair values may not be realized in the current sale of the financial instrument.

Management's assessment of fair values

Where the fair value of financial instruments cannot be derived from the active market, the Bank establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, a reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis models. Deciding on the model inputs requires judgment.

Cash amounts due from banks and balances with the National Bank of Romania and placements with other banks

The carrying values of cash and balances with central banks are generally deemed to approximate their fair value.

The fair value of other amounts due from banks is estimated based upon discounted cash flow analyses using interest rates currently offered for investments with similar terms (market rates adjusted to reflect credit risk). The fair value of non-performing amounts due from banks is estimated using a discounted cash flow analysis or the appraised value of the underlying collateral level 2 of the fair value estimate. Provisions are not taken into consideration when calculating fair values.

Loans

Generally, the fair value of variable yield loans that are regularly re-valued approximates their carrying value with no significant changes in credit risks. The fair value of loans at fixed interest rates is estimated using discounted cash flow analyses, based upon interest rates currently offered for loans with similar terms to borrowers of similar credit risks.

The fair value of non-performing loans to customers is estimated using a discounted cash flow analysis or the appraised value of the underlying collateral, where available.

Hold-to-Collect Financial Investments

The fair value of securities recorded in the portfolio is stated at the price determined by valuation techniques based on level 2 of the fair value estimate. For government and banking bonds, whose issuers have rating compared with the country rating, fair value is calculated using the market yield curve without credit margin. For other types of bonds, the credit margin reflecting the issuer's credit risk is applied in addition to the market yield curve.

Amounts due to Banks and Deposits from the National Bank of Romania and Other Banks and Amounts due to Customers

The fair value of term deposits payable on demand represents the carrying value of amounts payable on demand as at the statement of financial position date.

The fair value of term deposits will be determined using the interest rates in the standard offer of the bank. In this sense, deposits will be grouped into maturity bands depending on their residual maturity. For each maturity band, it will be setting the standard interest rate applicable to the middle of the interval by linear interpolation. Using the determined interest rate, the fair value of term deposits will be calculated as the present value of cash flows.

4.4 Operational Risk

Operational risk represents the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk.

The operational risk management represents identifying, determining/assessing, monitoring and diminishing operational risks. Operational loss event represents an event or incident, as a result of which a process/activity produces or may produce an outcome other than expected, with a negative financial impact/positive impact on the profit or the Bank's capital and is caused by human error or intentional damage, non-compliant or erroneous, incorrect operation of processes/activities, systems or caused by factors other than external credit risk or market risk.

The Bank has a governance framework for operational risk which includes policies and processes for identification, evaluation, analysis, monitoring, and control/decreasing operational risk. Policies and procedures are based on the size, nature, and complexity of Bank's activities and regularly they are adjusted in function of the profile of operational risk in case of change and external evolutions of the market. Policies and procedures include additional risks prevalent in certain operational activities and cover the periods when the operational risk might increase.

Operational risks are identified in two ways:

a) First, all loss events that actually occurred must be registered (direct loss/real for the Bank and also collateral losses, derived from unrealized profit);
b) Second, all operational risk situations generating potential losses, which might lead to direct/real financial losses, if they are not identified and corrected, must be identified.

Each organizational unit is responsible for the periodical collection and management of data regarding the operational risk loss events.

The Bank prepares annually the risks self-assessment, with the participation of each organizational unit. The self-assessment allows the identification and assessment of operational risks afferent to the respective year, as well as the measures to be taken for diminishing the loss caused by the occurrence of operational risk events.

The Bank has established a KRI (Key Risk Indicators) system, that is used for monitoring the operational risk exposure's level. The KRI's highlight the generating factors or the risk factor impact over the Bank. The key risk indicators aim is to forecast risks and to provide assistance in order to avoid certain losses arising from operational risk. Additionally, they have the role of identifying warning signals of potential losses.

The relevance and importance of the indicators are established considering the importance of the content of the particular indicator in supporting decisions, the importance of the risk assessment, the degree of risk correlation, objectivity and ease of its calculation.

The bank's regulations on operational risks enforce:

- Periodical revision of the framework of operational risk management within the Bank;
- Provisioning for operational risk in order to minimize the impact generated by recorded losses from operational risk events at the Bank's level;
- Permanent support for organizational units in order to prepare reports for operational risk;
- Information of organizational units about decisions of Operative Risk Committee and Management Board.
- Evaluation of the exposure to operational risk based on the recorded losses history and permanent update of the database regarding events which generate losses from operational risks, reported by the organizational units;
- Evaluation of activities and processes, products and systems by performing annual self-assessment of activities and processes that take place within all organizational units, for reporting the risks already identified during the activity or the potential risks and the control measures to reduce the occurrence or for risk elimination;
- Preparation of scenarios for the continuity of the Bank's activity in unpredictable situations. The business continuity plan is one of the instruments used by the Bank for operational risk management.

The Bank has a historical database, also aligned to the Group's requirements, where operational risk events monthly reported by all organizational units are centralized.

NOTA 5: FAIR VALUE OF FINANCIAL INSTRUMENTS

Methods and assumptions in consideration to the fair value of financial instruments:

- Short term financial assets and liabilities, defined as those with remaining maturities of 90 days or less - the fair value approximates their carrying amounts due to their short term maturity. The following instruments were considered predominantly short-term: on the asset side, cash, current account, and deposits at banks account with NBR and on the liability side demand deposits from banks and demand deposits from customers as well as certain term deposits from customers.
- Investment securities at fair value through profit and loss – this category includes unlisted securities and other investments. The fair value of these instruments is determined by a series of methods based on available data and their reliability, as well as by the factors specific to the actions to be assessed. Based on professional judgment, one of the methods will be selected: investment valuation using the DCF method, benchmarking based on market multiples, other indicators that can be taken into account during the assessment, other indicators specific to sectoral features. The bank owns fund units registered as equity instruments. The revaluation operation is executed on a monthly basis based on the NAVU communicated by the fund manager. The fair value is the number of units owned by the fund * the corresponding NAVU.
- Investment securities at fair value through other comprehensive income - The fair value of each transaction will be calculated as Nominal value * the Bid Clean price expressed in percent (relative to the revaluation date) plus the coupon accumulated up to the revaluation date.

- Loans and advances to customers, net - the fair value of loans is established using the current market prices for the loan products. The fair value is determined as the present value of future cash flows.

- **Borrowings and deposits from customers granted attracted at variable interest rates** - the fair value of long-term loan contracts is determined as the present value of future cash flows using the zero coupon yield curves and the intragroup financing margins valid at the valuation date.

The fair value of the client's term deposits is determined using the interest rates of the bank's standard offer; the fair value of term deposits will be calculated as the present value of future cash flows.

The following table summarizes the carrying amounts of financial assets and financial liabilities presented on the Bank's balance sheet and their fair values:

Lines of the balance sheet	Carrying Amount December 31, 2018	Carrying Amount December 31, 2017	Fair Value December 31, 2018	Fair Value December 31, 2017
FINANCIAL ASSETS				
Cash	469,476	272,902	469,476	272,902
Current accounts and deposits at Banks	598,086	99,660	598,086	99,660
Accounts with the National Bank of Romania	966,354	991,488	966,354	991,488
Securities held-to-maturity/ amortised cost	288,678	187,986	288,678	199,758
Loans and advances to customers, net	7,703,992	6,916,906	7,692,179	7,126,156
Loans and advances to banks	2,069	121	2,069	121
Investment securities - Available for sale according to IAS 39	-	403,014	-	404,769
Investment securities at fair value through profit and loss according to IAS 39	-	4,289	-	4,289
Investment securities at fair value through profit and loss	11,426	-	11,426	-
Investment securities at fair value through other comprehensive income	698,201	-	698,201	-
Derivatives	6,991	2,273	6,991	2,273
Derivatives hedge accounting	3,142	-	3,142	-
FINANCIAL LIABILITIES	38,301	11,089	38,301	11,089
Demand deposits from banks	400,649	-	400,649	-
Term deposits from banks	2,602,190	2,374,577	2,602,190	2,374,577
Demand deposits from customers	4,430,473	4,105,743	4,453,543	4,127,470
Term deposits from customers	2,090,171	1,319,004	2,096,359	1,336,360
Borrowings	8,270	4,911	8,270	4,911
Derivatives	25,938	24,475	25,938	24,475
Derivatives hedge accounting				

- The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.
- Level 1: quoted market price in an active market for an identical instrument;
- Level 2: valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments, quoted prices for similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data;
- • Level 3: valuation techniques which are not based on observable inputs.

Financial assets measured at fair value	**December 31, 2018**			
	Level 1	**Level 2**	**Level 3**	**TOTAL**
Investment securities at fair value through profit and loss	-	11,426	-	11,426
Investment securities at fair value through other comprehensive income	-	698,201	-	698,201
Derivative financial instruments	-	6,991	-	6,991
Forward transactions	-	-	-	0
Fx swap	-	5630	-	5,630
Interest rate swaps	-	1,281	-	1,281
Currency options	-	80	-	80
Derivatives hedge accounting	-	3,142	-	3,142
Total Financial Assets measured at fair value	**-**	**719,760**	**-**	**719,760**

Financial assets measured at fair value	**December 31, 2017**			
	Level 1	**Level 2**	**Level 3**	**TOTAL**
Investment securities - Available for sale according to IAS 39	-	404,769	-	404,769
Investment securities at fair value through profit and loss according to IAS 39	-	4,289	-	4,289
Derivative financial instruments	-	2,273	-	2,273
Forward transactions	-	63	-	63
Fx swap	-	798	-	798
Interest rate swaps	-	1,411	-	1,411
Currency options	-	1	-	1
Derivatives hedge accounting	-	-	-	-
Total Financial Assets measured at fair value	**-**	**411,331**	**-**	**411,331**

Financial assets for which fair value is disclosed	**31 decembrie 2018**			
	Nivel 1	**Nivel 2**	**Nivel 3**	**TOTAL**
Cash	469,476	-	-	469,476
Current accounts and deposits at banks	-	598,086	-	598,086
Accounts with the National Bank of Romania	-	966,354	-	966,354
Securities amortised cost	-	288,678	-	288,678
Loans and advances to banks	-	2,069	-	2,069
Loans and advances to customers, net	-	-	7,692,179	7,692,179
Total financial assets for which fair value is disclosed	**469,476**	**1,855,187**	**7,692,179**	**10,016,842**

Financial assets for which fair value is disclosed	December 31, 2017			
	Level 1	Level 2	Level 3	TOTAL
Cash	272,902	-	-	272,902
Current accounts and deposits at banks	-	99,660	-	99,660
Accounts with the National Bank of Romania	-	991,488	-	991,488
Securities held-to-maturity	-	199,758	-	199,758
Loans and advances to banks	-	121	-	121
Loans and advances to customers, net	-	-	7,126,156	7,126,156
Total financial assets for which fair value is disclosed	**272,902**	**1,291,027**	**7,126,156**	**8,690,085**

Financial liabilities measured at fair value	December 31, 2018			
	Level 1	Level 2	Level 3	TOTAL
Derivative financial instruments	**-**	**8,270**	**-**	**8,270**
Forward transactions	-	3	-	3
Fx swap	-	6,906	-	6,906
Interest rate swaps	-	1,281	-	1,281
Currency options	-	80	-	80
Derivatives hedge accounting	-	25,938	-	25,938
Interest rate swaps	-	25,938	-	25,938
Total financial liabilities measured at fair value	**-**	**34,208**	**-**	**34,208**

Financial liabilities measured at fair value	December 31, 2017			
	Level 1	Level 2	Level 3	TOTAL
Derivative financial instruments	**-**	**4,912**	**-**	**4,912**
Forward transactions	-	8	-	8
Fx swap	-	3,491	-	3,491
Interest rate swaps	-	1,411	-	1,411
Currency options	-	2	-	2
Derivatives hedge accounting	-	24,475	-	24,475
Interest rate swaps	-	24,475	-	24,475
Total financial liabilities measured at fair value	**-**	**29,387**	**-**	**29,387**

Financial liabilities for which fair value is disclosed	31 decembrie 2018			
	Level 1	Level 2	Level 3	TOTAL
Due to Banks	-	38,301	-	38,301
Due to customers	-	7,055,733	-	7,055,733
Borrowings	-	2,096,359	-	2,096,359
Total financial liabilities for which fair value is disclosed	**-**	**9,190,393**	**-**	**9,190,393**

Financial liabilities for which fair value is disclosed	31 decembrie 2017			
	Level 1	Level 2	Level 3	TOTAL
Due to Banks	-	11,089	-	11,089
Due to customers	-	6,502,047	-	6,502,047
Borrowings	-	1,336,360	-	1,336,360
Total financial liabilities for which fair value is disclosed	**-**	**7,849,496**	**-**	**7,849,496**

NOTE 6: NET INTEREST INCOME

	Year ended December 31, 2018	Year ended December 31, 2017
Interest on loans and advances to customers	433,668	340,187
Total interest on loans	**433,668**	**340,187**
Deposits and accounts with other banks	2,534	339
Demand deposits and accounts with the Central Bank	1,148	327
Total interest on deposits with banks	**3,682**	**666**
Reverse repo agreements	165	696
Interest on treasury securities, net	12,527	10,884
Total interest income	**450,042**	**352,433**
INTEREST EXPENSE		
Term deposits	-75,087	-46,046
Demand deposits	-2,202	-1,262
Total interest on customers' deposits	**-77,289**	**-47,308**
Interest expense on accounts and deposits with other banks	-5,527	-1,136
Interest on other borrowed funds	-22,212	-11,131
Total interest expense	**-105,028**	**-59,575**
Net interest income	**345,014**	**292,858**

Interest on loans includes interest on non-performing loans, an amount of 19,271 thousand, for the year ended December 31, 2018 (11,329 thousand for the year ended December 31, 2017).

Interest on loans increased in 2018, in accordance with the increase of the loans' portfolio, the gross exposure from 2018 is larger by 864 million RON.

Interest expense increased in 2018 was influenced by the rising of the interest rates on the local financial market.

NOTE 7: FEES AND COMMISSIONS INCOME AND EXPENSES

FEES AND COMMISSIONS INCOME	Year ended December 31, 2018	Year ended December 31, 2017
Lending business	**26,774**	**26,089**
Payment transfers	33,070	27,710
Card related fees and commissions	10,369	9,604
Deposit and turnover fees and commissions	4,068	3,650
Fee income from other services	3,858	4,044
Cash management fees	22	42
Fees and commissions income from contract with customers	**51,387**	**45,050**
Total fees and commissions income	**78,161**	**71,139**

FEES AND COMMISSIONS EXPENSE	Anul încheiat 31 decembrie 2018	Anul încheiat 31 decembrie 2017
Expenses on card operations	-24,668	-19,713
Deposit and turnover fee and commission expenses	-2,616	-2,339
Other services	-2,068	-2,125
Total fees and commissions expense	**-29,352**	**-24,177**

Fee and commission income is in amount of RON 78.1 million (increased by 9.87% compared to 2017) and fee and commission expenses are in amount of RON 29.4 million (increased by 21.4% compared to 2017).

NOTE 8: IMPAIRMENT LOSSES

	Note	Year ended December 31, 2018	Year ended December 31, 2017
Allowance for loans receivable	18	-419,789	-330,470
Release of provisions for loans receivable	18	340,284	309,806
Impairment losses on loans and advances to customers		**-79,505**	**-20,664**
Impairment losses on other assets			
(Impairment losses) / Release of provision for advances to customers	18	-2,079	261
(Impairment losses) / Release from sold receivables		-3,160	-3,538
(Impairment losses) / Release on other Off BS commitments		-8,092	334
(Impairment losses) / Release Operational risk provisions		100	13
(Impairment losses) / Release Provisions for litigation risk and CHF loan conversion		-35,123	663
(Impairment losses) / Release Provisions for fixed assets	19	3,365	2,355
(Impairment losses) / Release Provision on Investment property		3,725	-3,187
(Impairment losses) / Release Restructuring provision		99	1,960
(Impairment losses) / Release Other financial instruments		-191	-
Total (Impairment losses) / Release on other assets provisions		**-41,356**	**-1,139**
Total Impairment losses on loans and other assets		**-120,862**	**-21,803**

Impairment losses increased significantly from RON 21.8 million to RON 120.9 million as a result of the methodology for calculating impairment adjustments in line with the new IFRS 9 reporting standard. With this Standard, depreciation adjustments for expected losses are calculated for all financial assets, and for loans granted according to the stages in which they are located, adjustments are calculated for expected losses over the next 12 months or expected lifetime losses. Also in this position is the increase in provisions for litigation.

NOTE 9: TRADING INCOME, NET

	Year ended December 31, 2018	Year ended December 31, 2017
Net foreign exchange income	20,197	46,592
Net foreign exchange income related to derivatives	43,513	5,530
Total trading income	**63,710**	**52,122**

NOTE 10: PERSONNEL EXPENSES

The value representing "Salaries" at the end of 2018 and 2017 does not contain management contracts. At December 31, 2018, the expense with the management contracts was RON 5,284 thousand (RON 4,490 thousand as of December 31, 2017).

	Year ended December 31, 2018	Year ended December 31, 2017
Salaries	-144,260	-99,046
Social insurance contributions	-3,391	-24,552
Other employee benefits	-3,902	-3,355
Salaries	**-151,553**	**-126,953**

NOTE 11: OPERATIONAL EXPENSES

	Year ended December 31, 2018	Year ended December 31, 2017
Rent and utilities expenses*	-19,865	-19,554
Insurance premiums	-3,198	-2,621
Fees for experts and services**	-15,135	-16,316
Cards related expenses	-7,262	-7,459
Advertising	-14,065	-10,330
Taxes***	-10,425	-15,244
Other administrative expenses	-46,153	-44,720
Total	**-116,103**	**-116,244**

* The rent and utilities expenses increased marginally. During 2018, one unit has been closed.

** Fees for experts and services include the fees paid by the Bank to the statutory audit firm and other companies from their group: audit of statutory financial statements and group reporting package of the Bank and its controlled undertakings: RON 854 thousand (December 31, 2017: RON 736 thousand).

*** The annual contribution to Guarantee Scheme and Resolution Fund for 2018 were RON 7,900 thousand compared with 13,275 thousand in 2017.

NOTE 12: OTHER INCOME AND OTHER EXPENSES

	Year ended December 31, 2018	Year ended December 31, 2017
Rent and utilities income	318	255
Other non-banking services	2,309	2,133
Insurance premiums	1,008	520
Other operating income	5,825	6,255
Income from dividens VISA	46	24
Other income from loans	6,172	10,084
Total other income	**15,678**	**19,270**
Other operating expenses	-20,217	-28,361
Total other expense	**-20,217**	**-28,361**
Total, net	**-4,539**	**-9,091**

NOTE 13: CASH AND CASH EQUIVALENT

	December 31, 2018			December 31, 2017		
	RON	**FCY**	**Total**	**RON**	**FCY**	**Total**
Cash	131,329	299,663	430,992	115,515	125,439	240,954
Cash in ATM	38,484	-	38,484	31,948	-	31,948
Total	**169,813**	**299,663**	**469,476**	**147,463**	**125,439**	**272,902**

For purposes of the statement of cash flows, the Bank considers cash on hand and current accounts at banks as cash and cash equivalents as follows:

	December 31, 2018	December 31, 2017
Cash and cash equivalents	469,476	272,902
Current accounts and deposits at banks	598,086	99,660
Cash at the National Bank of Romania	966,354	991,488
	2,033,916	**1,364,050**
Less Compulsory reserves at National Bank of Romania	-549,891	-463,219
Total cash and cash equivalents	**1,484,025**	**900,831**

NOTE 14: CURRENT ACCOUNTS AND DEPOSITS AT BANKS

	December 31, 2018			December 31, 2017		
	RON	FCY	Total	RON	FCY	Total
Current accounts at banks	172,012	424,004	596,016	-	37,402	37,402
Deposits at banks	-	2,070	2,070	11,002	51,256	62,258
Total	**172,012**	**426,074**	**598,086**	**11,002**	**88,658**	**99,660**

The bank's placements as at December 31, 2018 (as well as at December 31, 2017) are free of any obligation or commitment (not pledged).

The interest rates received by OTP Bank Romania S.A. for current accounts and deposits at banks as at the reporting dates were the following:

	December 31, 2018		December 31, 2017	
	RON	FCY	RON	FCY
Current accounts with banks	0,00%	0,00%	0,00%	0,00%
Deposits at banks	2,50% - 3,25%	-0,25% - 0,08%	1,25%	-0,30% - -0,40%

Currents accounts with banks are not bearing interest.

Placement with other banks represents short term excess liquidity placed on the money market.

NOTE 15: ACCOUNTS WITH THE NATIONAL BANK OF ROMANIA (NBR)

	December 31, 2018			December 31, 2017		
	RON	FCY	Total	RON	FCY	Total
Current accounts	273,988	692,366	966,354	185,546	805,942	991,488

The National Bank of Romania ("NBR") requires Romanian commercial banks to maintain certain reserves ("mandatory reserve") computed in accordance with specific regulations by applying a percentage to the average balance of other borrowed funds (deposits from clients and borrowings) on a definite period of time and whose withdrawal are restricted. For the application period, December 24, 2018 – January 23, 2019, the minimum mandatory reserve was determined at the level of 549,891 thousand RON (December 31, 2017: 463,219 thousand RON).

As at December 31, 2018, the reserve was set up at the following rates:

- **RON:** 8% of the borrowed funds in local currency (December 31, 2017: 8%);
- **Foreign currency:** 8% of the borrowed funds in other than local currency (December 31, 2017: 8%).

The interest rate paid by the National Bank of Romania for minimum mandatory reserve as of December 31, 2018 was as follows:

- **RON:** 0.20% (31 decembrie 2017: 0.10%)
- **EUR:** 0.02% (31 decembrie 2017: 0.02%)

NOTE 16: SECURITIES AT AMORTIZED COST

Treasury securities represent financial instruments hold to collect (treasury certificates), issued by the Romanian Ministry of Finance.

Total treasury securities issued by the Romanian Ministry of Finance held by the Bank as of December 31, 2018 stand for RON 288,678 thousand (RON 187,986 thousand as of December 31, 2017).

On December 31, 2018, we no longer have securities with residual maturity less than 1 year (RON 55,870 thousand as of December 31, 2017 with residual maturity less than 1 year). The treasury bonds are unencumbered and at the immediate disposal of the Bank as at December 31, 2018 and December 31, 2017.

Moody's ratings available for Romania as at December 31, 2018 were as follows:

- Local currency: Baa3
- Foreign currency: Baa3

The structure of bonds and other fixed-yield securities as at December 31, 2018 and December 31, 2017 was the following:

	December 31, 2018 – IFRS 9	December 31, 2017 – IAS 39
Fixed rate Bonds	282,682	184,472
Accrued interest	6,467	3,514
Loss allowance on securities at amortized cost	-471	-
TOTAL Securities at amortizezd cost	**288,678**	**187,986**

NOTE 17: LOANS AND ADVANCES TO BANKS

The loans and advances to banks presented below as at December 31, 2018 are transit amounts to be received from banks.

	December 31, 2018	December 31, 2017
Loans and advances to banks	2,069	121
Total loans and advances to banks	**2,069**	**121**

NOTE 18: LOANS AND ADVANCES TO CUSTOMERS, NET

a) Structure of loans (gross and net amounts)

Throughout the "Credit Risk Management" notes and disclosures gross value of the loans contains the effect of Interest adjustments for impaired loans (IRC).

The table below presents the structure of IRC for Gross exposure as of December 31, 2018.

	Gross exposure (net of IRC)	Stage 3 Lifetime ECL IRC	Total Gross exposure
Legal entities	3,963,084	-9,923	3,953,160
Individuals	4,147,123	-3,506	4,143,617
Total	**8,110,207**	**-13,430**	**8,096,777**

The item "Loans and advances to customers, net" includes all financial assets which are not classified as "Financial assets at fair value through profit or loss", "Financial assets available for sale" or "Securities at amortised cost" and has the following structure:

	December 31, 2018	December 31, 2017
*Loans, gross **	**8,096,777**	**7,232,606**
Impairment losses on loans	-392,785	-315,700
Loans, net	**7,703,992**	**6,916,906**

* includes POCI category. At December 31, 3018, the POCI financial assets has a net exposure of RON 66,995 thousand.

b) Structure of loans by currency (gross and net amounts)

Structure by currency	December 31, 2018			December 31, 2017		
	RON	FCY	Total	RON	FCY	Total
Loans, gross	5,054,276	3,042,501	8,096,777	4,402,673	2,829,933	7,232,606
Impairment losses on loans and advances to customers	-225,857	-166,928	-392,785	-127,867	-187,833	-315,700
Total loans and advances to customers, net	**4,828,419**	**2,875,573**	**7,703,992**	**4,274,806**	**2,642,100**	**6,916,906**

c) Structure of loans by type of customer (net amounts)

	December 31, 2018			
	Total loans	RON	FCY	%
Legal entities	3,696,815	2,311,177	1,385,638	49,77%
Individuals	4,007,177	2,517,243	1,489,934	52,01%
Total loans and advances to customers, NET	**7,703,992**	**4,828,419**	**2,875,573**	**100%**

	December 31, 2017			
	Total loans	RON	FCY	%
Legal entities	3,161,641	2,171,431	990,210	45,70%
Individuals	3,755,265	2,103,375	1,651,890	54,29%
Total loans and advances to customers, NET	**6,916,906**	**4,274,806**	**2,642,100**	**100%**

d) Concentration by sector for legal entities and by product for individuals

	December 31, 2018	%	December 31, 2017	%
RETAIL	**4,007,177**	**52%**	**3,755,265**	**54%**
Consumer loans	1,868,090	24%	763,349	11%
Housing	2,139,087	28%	2,991,916	43%
CORPORATE	**3,696,815**	**48%**	**3,161,641**	**46%**
Trade and finance	858,848	11%	877,997	13%
Manufacturing	689,336	9%	671,841	10%
Transportation and communications	168,239	2%	209,177	3%
Services	475,093	6%	359,617	5%
Agriculture and forestry	449,642	6%	356,390	5%
Real estate and construction	917,784	12%	539,559	8%
Other sectors	137,874	2%	147,060	2%
Total loans and advances to customers, net	**7,703,992**	**100%**	**6,916,906**	**100%**

e) Impairment allowance movement

	December 31, 2018			
	Stage 1	**Stage 2**	**Stage 3**	**TOTAL**
Gross carrying amount as at December 31, 2017	5,462,401	1,185,573	584,632	7,232,606
Gross carrying amount as at 1 st January 2018	-74	-	-	-74
Gross carrying amount as at 1 st January 2018	**5,462,327**	**1,185,573**	**584,632**	**7,232,532**
Transfers to Stage 1	398,972	-395,696	-3,276	-
Transfers to Stage 2	-73,904	99,180	-25,276	-
Transfers to Stage 3	-82,844	-74,341	157,185	-
New financial assets originated or purchased	2,755,397	36,791	37,983	2,830,171
Assets derecognised or fully repaid (excluding receivables write offs)	-	-	-34,409	-134,409
Write-off	-	-	-14,414	-14,414
Other changes including repayments	-1,596,754	-136,153	-184,196	-1,917,103
Gross carrying amount as at December 31, 2018	**6,863,194**	**715,354**	**518,229**	**8,096,777**

	December 31, 2018			
	Stage 1	**Stage 2**	**Stage 3**	**TOTAL**
Impairment allowance as at December 31, 2017	27,538	31,973	256,189	315,700
Impairment allowance as at 1 st January 2018 (under IFRS 9)	40,665	19,974	18,574	79,212
Impairment allowance as at 1 st January 2018	**68,202**	**51,947**	**274,763**	**394,912**
Transfers to Stage 1	9,398	(8,492)	(906)	-
Transfers to Stage 2	(1,107)	8,740	(7,633)	-
Transfers to Stage 3	(1,509)	(6,819)	8,328	-
Increases due to change in credit risk	31,416	84,759	234,063	350,238
Decreases due to change in credit risk	(58,004)	(86,198)	(196,083)	(340,285)
New financial assets originated or purchased	48,907	6,182	14,461	69,550
Financial assets that have been derecognized	-	-	64,167	64,167
Write-offs	-	-	(12,773)	(12,773)
Other changes including FX impact	(6,130)	6,819	(5,379)	(4,690)
Impairment allowance as at December 31, 2018	**91,173**	**56,938**	**244,674**	**392,785**

NOTE 19: TANGIBLE AND INTANGIBLE ASSETS, NET

In December 2018 the bank reevaluated the land and the buidings with an external valuator ANEVAR member and the total impact of the building revaluation is RON 15.571 million impact in own funds (reserve) and (1,547) thousand RON against P&L (expense).

During 2018 the values of disposals of tangible assets are the folowings (in thousand RON):

Land and Buildings	Furniture and Equipment	Vehicles	Computers
6,456	**6,104**	**736**	**2,337**

	Land and Buildings	Furniture and Equipment	Vehicles	Computers	Tangible assets	Construction in progress	Other intangibles	Total
Gross book value January 1st, 2018	**161,079**	**74,531**	**12,118**	**23,103**	**270,831**	**12,646**	**84,988**	**368,465**
Additions	26,021	11,430	504	5,968	43,923	54,956	37,605	136,484
Reclasification	-	-	-	-	-	-	-	-
Disposals	-8,781	-6,474	-736	-2,530	-18,521	-56,709	-17,499	-92,729
Gross book value December 31, 2018	**178,319**	**79,487**	**11,886**	**26,541**	**296,233**	**10,893**	**105,095**	**412,221**
Accumulated depreciation January 1st, 2018	**(69,141)**	**(58,523)**	**(7,661)**	**(17,587)**	**(152,912)**	**-**	**(65,382)**	**(218,294)**
Depreciation charge for 1 year period ended December 31, 2018	-4,679	-4,500	-1,227	-2,441	-12,847	-	-5,526	-18,373
Accumulated depreciation of disposals	3,397	4,503	713	2,336	10,949	-	4,284	15,233
Accumulated depreciation December 31, 2018	**-70,423**	**-58,520**	**-8,175**	**-17,692**	**-154,810**	**-**	**-66,624**	**-221,434**
Net book value December 31, 2018	**107,896**	**20,967**	**3,711**	**8,849**	**141,423**	**10,893**	**38,471**	**190,787**

	Land and Buildings	Furniture and Equipment	Vehicles	Computers	Tangible assets	Construction in progress	Other intangibles	Total
Gross book value January 1st, 2017	**163,036**	**75,341**	**10,885**	**21,239**	**270,501**	**8,043**	**73,475**	**352,019**
Additions	7,039	6,067	1,799	2,423	17,328	21,936	18,348	57,612
Reclasification	-	-	-	178	178	-	-178	-
Disposals	-8,996	-6,877	-566	-737	-17,176	-17,332	-6,657	-41,165
Gross book value December 31, 2017	**161,079**	**74,531**	**12,118**	**23,103**	**270,831**	**12,646**	**84,988**	**368,465**
Accumulated depreciation January 1st, 2017	**-69,376**	**-61,707**	**-7,149**	**-15,723**	**-153,955**	**-**	**-60,307**	**-214,262**
Depreciation charge for 1 year period ended December 31, 2018	-5,831	-4,018	-1,076	-2,597	-13,522	-	-5,252	-18,774
Accumulated depreciation of disposals	6,067	7,202	565	731	14,565	-	178	14,743
Accumulated depreciation December 31, 2017	**-69,141**	**-58,523**	**-7,661**	**-17,587**	**-152,912**	**-**	**-65,382**	**-218,294**
Net book value December 31, 2017	**91,938**	**16,008**	**4,457**	**5,516**	**117,919**	**12,646**	**19,606**	**150,171**

NOTE 20: INVESTMENT SECURITIES. AVAILABLE FOR SALE AND AT FAIR VALUE THROUGH PROFIT AND LOSS

Investments in securities represent quoted and unquoted shares classified in the following categories as a result of applying IFRS 9:

a) Investment securities mandatorily at fair value through profit and loss

Amounts in RON	December 31, 2018	December 31, 2017
OTP Premium Return	2,259	2,395
OTP Euro Premium Return	2,457	2,891
OTP Global Mix	-	2,335
OTP Real Estate & Construction	2,205	-
OTP Dollar Bond	4,505	4,289
Total	**11,426**	**11,910**

b) Investment securities at fair value through other comprehensive income

Amounts in RON	December 31, 2018	December 31, 2017
Romania Ministry of Finance	359,848	382,994
Poland Ministry of Finance	106,457	-
Slovenia Ministry of Finance	47,893	-
Spanish Ministry of Finance	167,433	-
Bucharest City Hall	5,239	5,044
Total	**686,870**	**388,038**

Equity investments	December 31, 2018	December 31, 2017
Unquoted shares	11,251	7,275
Other investments	80	80
TOTAL	**11,331**	**7,355**

For all investments except SWIFT and VISA, the main activity of the not-listed companies is in Romania.

The Bank bought in 2018 unlisted securities from MASTERCARD.

Bank holds investments in fund units of OTP Premium Return and OTP Euro Premium Return, OTP Real Estate & Construction and OTP Bond Dollar, common funds managed by OTP Asset Management SAI.

OTP Premium Return has a permissive investment policy and invests in asset such as shares, sovereign bonds, and corporate or municipal bonds, index certificates, money market instruments. Investments are made both in EUR and RON. Fund aims to generate superior returns in comparison to the benchmark of ROBID1Y + 1%.

OTP Global Mix was redeemed in 2018, and the Bank reinvested the amount in OTP Real Estate & Construction.

OTP Real Estate & Construction is a multi-asset fund with investment both in equity and bonds issued by real estate companies and construction companies on international markets. The fund is focused on income side taking into consideration that the fund will distribute the revenues (from coupons and dividends) quarterly. The strategy of the fund is to create a very well diversified portfolio with small single exposure and will pay attention on the financial solidity of the companies. Taking into consideration the diversification we intend to invest on different markets (US, Europe, Japan, etc). This fund is unique for the moment in Romania asset management market and is denominated in RON.

OTP Dollar Bond invests in fixed income securities denominated in USD, such as corporate bonds, municipal or State bonds - guaranteed by Member States and / or their public authorities, government securities, bank deposits and other money market instruments. The Fund intends to invest at least 80% in fixed income and at most 20% in cash and equivalent. Fund investments in other assets will not exceed 10%. The Fund will not invest in shares. Maximum 20% of Fund assets may be invested in convertible bonds. The same limits apply to investments in asset-backed securities / mortgage bonds.

Shares in MasterCard

The Bank owns a number of 2,980 shares, with a cost value amounting to 0.03 USD. According with the provisions of IFRS9, this type of asset is held at fair value through profit and loss account, therefore the fair value of these shares are in amount of 2.290 milion RON.

Share in VISA Europe LTD.

The fair value of the VISA Europe Ltd share has been made based on the estimated proceeds consisting in cash and preferred shares to be received by the Bank from Visa Inc following to the transaction made publicly on 2nd of November 2015 by Visa Inc. ("VInc") and Visa Europe Ltd ("VE").

Due to the restrictions imposed by VISA Inc on conversion of preferred shares into common stock quoted on stock exchange and their future trading for a period of 12 years since closing as well as potential impact from existing litigation and future obligations, a reliable fair value for the preferred shares proceeds cannot be established based on actual limited available information.

The transaction mainly consists of upfront consideration of €16.5 billion, consisting of €11.5 billion of cash and preferred stock convertible into Visa Inc. class A common stock valued at €5 billion, where the upfront consideration has been distributed to all Visa Europe members in accordance with the methodology set up by VE management. The transaction was subject to regulatory approvals and was closed by end of 2nd quarter of 2016.

During 2016, the Bank received the amount of 3,494,947 EUR representing the Bank's up-front consideration, which is based on the contribution to VISA Europe's business (including cash for sale of the ordinary shares(s) of €10 in VISA Europe). Also the Bank's received 1.268 series C VISA Inc. preffered shares with value 1,159,420 USD (eq 6,565,876 RON) at December 31, 2017. As of 31 December 2018, the value of 1,268 series C VISA Inc. Preffered shares is 7,949,331 RON.

Other companies within OTP Groups

OTP Factoring Romania SRL is engaged in the management of the purchased receivables and non-bank financial institutions.

Right to Education Foundation was registered and incorporated on 23 December 2013 by Decision General Meeting of Shareholders of October 2013. Bank Foundation was created with the support and experience gained in 20 years of activity of the Foundation Fay, on education pupils and students.

The project aims to develop a new dimension and approach in Romania, Bank acting as support for education by creating an institutional and organizational framework.

NOTA 21: INVESTMENT IN ASSOCIATES AND SUBSIDIARIES

	Gross book value		Percentage owned
	December 31, 2018	**December 31, 2017**	**December 31, 2018**
OTP Advisor SRL	4,729	4,729	100%
OTP Consulting România SRL	210	210	75%
OTP Leasing IFN România SA	11,713	8,401	60%
Total Gross Value	**16,652**	**13,340**	
OTP Advisor SRL	-4,729	-4,729	
Total impairment	**-4,729**	**-4,729**	
Total net value	**11,923**	**8,611**	

OTP Leasing Romania IFN S.A. provides leasing for cars and equipment, operating on the market since August 2007. OTP Bank Romania acquired 60% of the share capital of OTP Leasing Romania, taking shares from the majority shareholder Merkantil Bank Hungary. Both companies are part of the same OTP Group Nyrt. Hungary. The registered office of OTP Leasing Romania IFN S.A. is located on Nicolae Caramfil Street no. 79. District 1, Bucharest.

OTP Bank Romania S.A. has increased the share capital of OTP Leasing Romania IFN S.A. in October 2018 by 3,312 thousand RON, which meant the issue of 331,200 shares with a nominal value of 10 RON.

The value of investment in OTP Advisors SRL on December 31, 2018 was 4,729 thousand RON, for which the Bank booked an impairment of 4,729 thousand.

OTP Advisors offers direct sales for Bank lending products. The registered office of OTP Advisors LLC is located at the following address: Matei Voievod Str. No. 40, Bucharest.

OTP Consulting Romania SRL provides support for foreign investments in Romania and advice for local authorities and small and medium sized companies in accessing EU funds and implementation of projects. The gross value of investment in OTP Consulting Romania SRL has not changed during 2018 compared to 2017.

The registered office of OTP Consulting Romania SRL is located at: Dacia Blvd., no. 83, Bucharest.

NOTE 22: 22. ALTE ACTIVE, NET

	December 31, 2018	December 31, 2017
Settlement accounts	44,526	29,667
Sundry debtors	9,650	10,087
Prepayments	6,317	6,711
Deferred income	4,080	3,472
Collaterals	4,014	1,127
Advances for tangible & intangible assets	968	2,870
Personnel receivables	12	9
Inventory	408	259
Tax receivables	1,551	753
Total	**71,526**	**54,955**

The amount from "Settlement accounts" class mainly represent transit amounts from promissory notes acceptance and transactions from POS. The amounts are settled against clients' accounts in the next days following the reporting period.

NOTE 23: LIABILITIES DUE TO BANKS

	December 31, 2018			December 31, 2017		
	RON	FCY	Total	RON	FCY	Total
Demand deposits from banks	15,046	23,255	38,301	11,041	48	11,089
Term deposits from banks	15,020	385,629	400,649	-	-	-
Total	**30,066**	**408,884**	**438,950**	**11,041**	**48**	**11,089**

NOTE 24: LIABILITIES DUE TO CUSTOMERS

	December 31, 2018			December 31, 2017		
	RON	FCY	Total	RON	FCY	Total
Customers' current accounts	1,626,725	975,465	2,602,190	1,561,898	812,679	2,374,577
Deposits from customers	2,822,793	1,607,680	4,430,473	2,417,747	1,687,996	4,105,743
Total	**4,449,518**	**2,583,145**	**7,032,663**	**3,979,645**	**2,500,675**	**6,480,320**

Included in layout "Deposits from customers" are deposits of 694,170 thousand RON from OTP Financing Netherlands B.V., with remaining maturities up to 4 years, for which there are no contractual bindings regarding advance repayment.

The maturity structure of the deposits taken from OTP Financing Netherlands B.V. is as follows:

- 69,959 thousand RON equivalent (15 million EUR) maturing on 20th of February 2019;
- 124,212 thousand RON equivalent (30 million CHF) maturing on 23th of December 2020;
- 250,000 thousand RON maturing on 22st of November 2021;
- 250,000 thousand RON maturing on 21st of November 2022.

The parent company will continue to provide to the Bank any financial support that might be necessary to comply with the central bank's regulatory requirements.

According to the currency and amount deposited by the clients. The Bank pays interest rates in the following ranges:

Term deposits	December 31, 2018	December 31, 2017
RON	0,00% - 7,00%	0,00% - 3,50%
EUR	0,00% - 2,15%	0,00% - 2,16%
USD	0,05% - 2,00%	0,05% - 1,59%
CHF	0,00% - 0,69%	0,00% - 0,69%
HUF	0,00% - 0,68%	0,00% - 0,60%
GBP	0,00% - 0,68%	0,00% - 0,60%

Saving deposits	December 31, 2018	December 31, 2017
RON	0,00% - 5,00%	0,00% - 1,40%
EUR	0,00% - 1,13%	0,00% - 0,25%
USD	0,00% - 2,00%	0,00% - 0,40%
CHF	0,00% - 0,25%	0,00%
HUF	0,00% - 0,10%	0,00% - 0,10%
GBP	0,00% - 0,40%	0,00% - 0,25%

NOTE 25: BORROWINGS

	December 31, 2018	December 31, 2017
EUROPEAN INVESTMENT BANK *	6,763	36,069
OTP FINANCING NETHERLANDS B,V,**	699,674	699,020
OTP FINANCING MALTA COMPANY LTD,***	1,383,734	583,915
Total	**2,090,171**	**1,319,004**

* The bank signed in 2016 a contract with the European Investment Bank for the amount of EUR 9,700 thousand with the purpose of extending funding to small and medium enterprises. As of December 31, 2018 the outstanding amount is EUR 1,446 thousand EUR.

** The loan was taken by OTP Bank Romania S.A. during the merger with Millennium Bank S.A. and represents financing lines for reimbursement received from Banco Comercial Portuges S.A. worth 150,000 thousand EUR. The loan was taken over by OTP Financing Netherlands BV having maturities between 2020 and 2022. Interest rate is EUROBOR 3M + 1.45%.

*** The bank signed in 2018 2 contracts with the OTP Financing Malta Company LTD for the amount of RON 350,000 thousand and 2 contracts in EUR 96,000 thousand (447,734 thousand RON) with the purpose of ensuring optimal liquidity for the bank's activity. The loans in RON are maturing in 2023.

NOTE 26: DERIVATIVES

The fair value of the derivative financial instruments is included in "Derivatives". Changes in their fair value that do not qualify for hedge accounting are recognized in the income statement lines "Trading income, net". The financial derivative instruments at face and fair values as at December 31, 2018 and December 31, 2017 were as follows:

	December 31, 2018			December 31, 2017		
	Notional amount	Asset	Liability	Notional amount	Asset	Liability
IRS	212,090	1,281	1,281	229,283	1,410	1,410
SWAP pe curs de schimb	3,325,851	5,630	6,909	1,246,806	861	3,499
Opțiuni	20,599	80	80	21,691	2	2
TOTAL	**3,558,540**	**6,991**	**8,270**	**1,497,780**	**2,273**	**4,911**

NOTE 27: DERIVATIVES ASSETS/LIABILITIES DESIGNATED AS HEDGING INSTRUMENTS

The Bank uses interest rates swaps to hedge the foreign currency risks arising from treasury bills and bonds. The fair values of derivatives designated as fair value hedge are:

	December 31, 2018			December 31, 2017		
	Notional amount	Asset	Liability	Notional amount	Asset	Liability
Interest Rate Swap Hedging	524,426	3,142	25,938	232,985	-	24,475
TOTAL	**524,426**	**3,142**	**25,938**	**232,985**	**-**	**24,475**

NOTE 28: PROVISIONS

	December 31, 2018	Values according with IFRS 9	December 31, 2017
Financial guarantees	36,010	27,899	7,552
Litigations	68,298	29,371	29,371
Restructuring	-	98	98
Personnel	14,792	8,559	8,559
Assigment of loans	2,162	5,248	
Other risks	2,465	2,640	2,640
Total	**123,727**	**73,815**	**48,220**

On 1st of January 2018, at the moment of first adoption of IFRS 9, there were booked loss adjustments for financial guarantees amounting to 27,899 thousand RON and were reclassified from provisions for financial guarantees in provisions for assignment of loans amounting to 5,248 thousand RON.

The restructuring provisions in amount of 98 thousand RON was reversed in 2018, because of its use for territorial network otptimisation. The Bank closed one branch.

NOTE 29: INCOME TAX

As at December 31, 2018 the Bank computed the deferred tax using the legal tax rate of 16% (2017: 16%). The method for estimating the tax loss used is to offset future profits. Starting with this date, the Bank expects to be able to use the tax loss carried forward up to limit of the future profits expected for the next 5 years.

Expenses with the income tax comprise:

Description	December 31, 2018	December 31, 2017
Current income tax expense	-	-
Deferred tax release / (charge) to profit and loss	-17,369	-16,255
Total income tax release / (charge) to profit and loss	**- 17,369**	**-16,255**

The deferred tax liability as of December 31, 2018 is presented as follows:

	Temporary difference	Tax effect
Revaluation reserve for tangible and intangible assets	50,308	8,049
Deferred tax liability as of December 31, 2018 - Fair-value adjustment of assets at fair value through OCI	7,753	1,241
Deferred tax liability as of December 31, 2018		**9,290**

The deferred tax asset as of December 31, 2018 is presented as follows:

	Temporary difference	Tax effect
Difference in depreciation between tax and accounting base for tangible and intangible assets	1,859	297
Deferred tax asset at December 31, 2018, as a result of the carried forward tax loss, limited to the future estimated profits	36,579	5,853
Deferred tax due to provisions for other risks	96,333	15,413
Deferred tax due to provisions for the conversion project	1,355	217
Deferred tax asset as of December 31, 2018		**21,780**

Net of deffered tax as of December 31, 2018	**12,490**

The total carried forward tax loss is presented as follows:

Description	December 31, 2018	December 31, 2017
Statutory net loss for the current period (a)	**26,217**	**84,522**
Non-taxable income (b)	-97,684	-47,960
Non-deductible expenses (c)	170,515	87,077
Other elements similar to Income (d)	63,530	-
Other elements similar to expenses (e)	-79,401	-19,534
Legal reserve (f)	-2,179	5,039
Fiscal profit / (loss) of current year (a+b+c+d+e+f)	**80,998**	**98,672**
Tax loss reported by OTP Bank România	-488,560	-587,178
Total carried forward fiscal loss (fiscal result + tax losses)	**-417,561**	**-488,506**

NOTA 30: OTHER LIABILITIES

	December 31, 2018	December 31, 2017
Other due amounts from interbank transactions	19,230	37,456
Other due amounts from transactions with non-banking clients	38,589	25,649
Current taxes	8,391	719
Sundry creditors	9,299	15,540
Unearned income	8,191	7,012
Salaries paid in advance	5,683	4,020
Expense to be paid	28,217	14,379
Others	274	80
Total	**117,874**	**104,854**

In the category of "Other due amounts from interbank transactions" are included transit operations related to payment orders or other interbanking transactions and in "Other due amounts from transactions with non-banking clients", there are transit amounts due to clients.

NOTA 31: SHARE CAPITAL

	December 31, 2018	December 31, 2017
Share capital as of January 1	**1,379,253**	**1,254,253**
Increase of share capital during the period	130,000	125,000
Share capital at the end of the period	**1,509,253**	**1,379,253**
Effect of hyperinflation until December 31, 2003	42,751	42,751
Share capital under IFRS	**1,552,004**	**1,422,004**

In 2018, share capital increase of OTP Bank Romania S.A. with the amount of 130,000,080 RON by subscribed and paid cash contribution of shareholder OTP Bank Nyrt.

The reasons of capital increase were:

- EU regulation and IFRS 9 mitigation effect;
- Excess from the current capital increase will be used for the current activity.

As at December 31, 2018 the Bank's share capital amounted 1,509,253 thousand RON and consisted of 6,288,554 registered ordinary shares with face value of 240 RON per share. All of the shares are ordinary shares and no special rights are attached to them. Voting rights per share are equivalent to the face value per share.

As at December 31, 2018, the Bank's entire share capital was registered at the Commercial Register and fully paid in.

Earnings per share

Income per share attributable to shares of the Bank (there are only common shares issued by the Bank) are computed as net profit for the relevant year attributable to the common shareholders divided by weighted average number of common shares outstanding during the year as follows:

	December 31, 2018	December 31, 2017
Profit after tax in the accounting period	26,219	84,522
Average number of ordinary shares outstanding during the period	6,288,554	5,746,887
Earnings per ordinary share (face value RON 240) in RON	**4,17**	**14,71**

NOTA 32: OFF BALANCE SHEET FINANCIAL COMMITMENTS

Issued guarantees and letters of credit

The Bank issues guarantees and letters of credit on behalf of its customers. The credit risk on guarantees is similar to that arising from granting of loans. In the event of a claim on the Bank as a result of a customer's default on a guarantee, these instruments also present a degree of liquidity risk to the Bank.

All letters of credit issued by the Bank are collateralized. As at December 31, 2018 and December 31, 2017 the probability of material loss arising in connection with letters of credit is considered to be remote and accordingly no provision has been established.

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and stand by letters of credit which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties carry the same credit risk as loans. Documentary and commercial letters of credit which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions are collateralized and because of this carry a lower risk.

Credit commitments

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss an amount equal to the total unused commitments. However, the likely amount of loss, though not easy to quantify, is considerably less than the total unused commitments, since most commitments to extend credit are contingent upon customers maintaining specific credit standards. While there is some credit risk associated with the reminder of commitments, the risk is viewed as modest since it results from the possibility of unused portions of loan authorizations being drawn by the customer and, secondly from these drawings, subsequently not being repaid as due.

The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements since many of these commitments will expire or terminate without being funded.

The aggregate amounts of outstanding guarantees, commitments and other off balance sheet items as of December 31, 2018 and December 31, 2017 are the following:

	December 31, 2018	December 31, 2017
Import letters of credit and other commitments, out of which:	1,022,015	962,514
Confirmed Letters of credit	*51,103*	*61,163*
Unutilised credit limits	*970,912*	*901,351*
Letters of guarantee and other guarantees	608,090	431,469
Other financial commitments	531,401	456,242
Total guarantees and other financing commitments	**2,161,506**	**1,850,225**

As of December 31, 2018 provisions recorded for off balance sheet financial commitments were in amount of RON 36,010 thousands (2018 1st of January – first time adoption of IFRS9: RON 27,899 thousand).

NOTE 33: CONCENTRATION OF ASSETS DUE BY GOVERNMENT AND HELD WITH THE CENTRAL BANK

The assets due by Government and the Central Bank are as follows:

	December 31, 2018	December 31, 2017
Amounts with the National Bank of Romania (Note 15)	966,354	991,488
Treasury Bills (Note 16 and 20)	970,455	570,981
Total	**1,936,809**	**1,562,469**

NOTE 34: RELATED PARTIES

The Bank enters into transactions with related parties which are members of OTP Group in the normal course of the business. All related party transactions were made under substantially similar terms including interest rates and collateral requirements as those prevailing for similar transactions with unrelated parties. The most significant transactions represent time deposits loans and the respective interest and fees received/paid.

The volume of related party transactions outstanding balances and related expense and income for the periods ended December 31, 2018 and December 31, 2017 are presented below:

	Management		Parent company		Other Related parties	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
Assets						
Due from other banks	-	-	382,466	25,360	-	-
Loans and advances to customers, net	*7,479*	*6,956*	-	-	3,324	52,365
Other assets	-	-	-	14	7,328	538
Fair Value of Derivatives Financial Instruments	-	-	*6,703*	-	-	-
Investment in Associates and Subsidiaries	-	-	-	-	12,924	8611
Total assets	**7,479**	**6,956**	**389,169**	**25,374**	**23,576**	**61,514**
Liabilities						
Due to other banks	-	-	373,835	620	5,499	376
Due to customers	*5,302*	*3,487*	-	-	2,845,946	2,706,486
Other liabilities	-	-	515	-	102	141
Fair Value of Derivatives Financial Instruments	-	-	31,531	25,886	-	-
Total liabilities	**5,302**	**3,487**	**405,881**	**26,506**	**2,851,547**	**2,707,003**
Income statement items						
Interest and Commission income	*20*	*114*	15,451	3,664	5,187	2,451
Interest and Commission expenses	*-5*	*- 22*	-16,500	-6,552	-55,699	-36,692
Other income	*1*	-	-	-	*24,766*	14
Other expenses	-	-	*-275*	-	*-32,115*	-
Total income statements items	**16**	**92**	**-1,324**	**-2,888**	**-57,861**	**-34,227**
Other commitments	-	-	1,907,740	1,448,694	10,524	372,776
Off-balance sheet commitments	**-**	**-**	**1,907,740**	**1,448,694**	**10,524**	**372,776**

Compensation of key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including any director (whether executive or otherwise) of the Bank.

The cumulated short term, long term and termination benefits granted to directors and other members of key management during periods ended December 31, 2018 and December 31, 2017 were as follows:

	December 31, 2018	December 31, 2017
Salary for key management personnel	2,834	12,178
Short-term and long-term benefits	9,225	4,718
Termination benefits	-	286
Total benefits for key management personnel	**12,059**	**17,182**

NOTE 35: OPERATING LEASE ARRANGEMENTS

Operated leases relate to leases of locations where the Bank's branches are developing their activity.

The Lease contracts are concluded for periods that vary between 1 and 10 years. All contracts are subject to yearly market rental review in order to adjust the prices to the market level.

The Bank does not have an option to purchase any of the leased locations at the expiry of the lease periods.

The Bank recognizes the lease payments under operating leases as expenses, on a straight-line basis over the lease term.

The below table shows the future payment obligations according to the rental agreements valid as of end of year:

	December 31, 2018	December 31, 2017
No later than 1 year	20,198	1,201
Later than 1 year and no later than 5 years	41,469	57,624
Later than 5 years	7,644	7,369
Total	**69,311**	**66,194**

NOTA 36: ENCUMBERED ASSETS

As of December 31, 2018 and December 31, 2017 the Bank didn't hold any encumbered assets.

NOTE 37: CONTINGENT LIABILITIES

At December 31, 2018 (and also at the time of issuance of this report) the Bank was involved in several litigations. Complaints against the Bank are received after normal business conducted by the Bank. Bank management believes that debt, if any, from such complaints do not have a material adverse effect on the financial position or results of future operations conducted by the Bank.

NOTE 38: BANK'S ACTIVITY AS AGENT

At December 31, 2018, the Bank does not manage portfolios sold to group members. The mortgage loans portfolio previously managed for OTP Mortgage bank was repatriated on 26.09.2018 (13 loans in amount of EUR 296,536.43).

Regarding the Corporate loans previously sold by the bank to OTP Bank Plc, at December 31, 2018 there were no such exposures remained in OTP Bank Plc portfolio (the loans were reimbursed or sold to OTP Factoring SRL).

NOTE 39: SUBSEQUENT EVENTS

No subsequent event was identified after the reporting date.
These separate financial statements have been authorized for issue by the management in 22nd of March, 2019.

Gábor Ljubičić,
Vice-Chairman of the Management Board and Deputy CEO

Mara Cristea
Member of the Management Board and Deputy CEO

OTP BANK ROMANIA S.A. MANAGEMENT BOARD REPORT CONCERNING THE YEAR ENDED DECEMBER 31, 2018

History

OTP Bank Romania (the Bank) is a subsidiary of OTP Bank, the largest independent banking group in Central and Eastern Europe, with operations in countries such as Hungary, Bulgaria, Croatia, Romania, Russia, Ukraine, Slovakia, Montenegro and Serbia. Active on the Romanian banking market since 2005, OTP Bank has set itself the target to become a powerful, universal bank, offering complete services for both individuals and corporate customers.

Following the conclusion of the sale and purchase of shares of Commercial Bank ROBANK SA in July 2004, all shares of the Bank have been acquired by OTP Group in Hungary. Initially Robank Commercial Bank S.A. was registered with the Trade Register under number J40/10296/1995, based in Bucharest, Unirii Blvd. 59, district 3, and received authorization to operate from the National Bank of Romania under letter no. VII/G/185 in December 1995.

In July 2005 the Bank's name changed from RoBank Romania S.A. to OTP Bank Romania S.A. Starting from March 2005, the new head office of OTP Bank Romania S.A. was established in 66-68 Buzesti St., District 1, Bucharest.

With the aim of increasing its position of Romanian banking market, in 2015 OTP Bank Romania SA completed the acquisition of Millennium Bank SA shares from Banco Comercial Portugues S.A. and Millennium BCP Participacoes SGPS, Sociedade Unipessoal LDA.

Consistent with its growth strategy through acquisitions, the Bank pursued the acquisition of Banca Românească, a member of the Greek National Bank of Greece. In a rare movement, in March 2018 the National Bank of Romania expressed its disapproval of the transaction, leading to its cancellation.

The Bank operates through its registered Head Office and network of branches comprising 95 units out of which 62 branches and 33 agencies.

The shareholders' structure at December 31, 2018 was as follows:

Shareholder	Ownership (%)	No, of shares	Amount (LEI)
1, OTP Bank Nyrt	99,9999363923725%	6,288,550	1,509,252,000
2, Merkantil Bank zrt,	0,0000636076275%	4	960
Total	**100%**	**6,288,554**	**1,509,252,960**

The Share capital of OTP Bank Romania S,A, increased with the amount of 130,000,080 RON by subscribed and paid cash contribution of shareholder OTP Bank Nyrt,

The reasons for capital increase were:

- Continuous business growth which leads to the increase of the loan portfolio;
- Balance sheet growth due to higher liquidity, as liquid assets grew their weight in total assets;
- Capital buffers which came into force in 2018 (systemic risk buffer) or that increased their value as of 1 January 2019 (capital conservation buffer);
- Transactions planned for 2019, that are expected to increase the consolidated risk-weighted assets in 2019;
- EU regulation and IFRS 9 mitigation effect.

Economic environment

During 2018, Romania's GDP grew by 4.1%, after strong growth of 7.0% in 2017, as household consumption declined slightly, the gap between exports and imports increased, and the investments have reduced. At the same time, the very large contribution from stockpiling could be interpreted as a sign of an outlook for 2019.

As for the overall picture, it is worth mentioning that Romania was one of the best performings in the CEE region, but as the impact of fiscal stimulus measures began to fade, the country's economy entered a phase of deceleration. It should also be noted that the **current account deficit** (4.6% of GDP), together with a relatively high **budget deficit** (around 3% of GDP), suggests that the growth of the economy has become more fragile. Introducing new taxes for key industries, including the banking sector, has led to higher uncertainties.

The structure of GDP indicates a certain vulnerability, as consumption and stocks have fueled economic growth in 2018. **Consumer spending** has remained the main driver of the economy, with a 5.2% gain after the available revenue has continued to grow rapidly rising minimum wages and wage increases in the public sector as well as labor market pressures. **The very large contribution of stocks** to GDP growth can indicate that sales have been unable to keep up with industry output due to the deterioration in external demand. Record crops in agriculture could also play a role in stockpiling.

Investments in fixed capital registered a decrease of 3.2% down mainly in the construction sector. It is also worth mentioning that, despite the advanced stage of the economic cycle, the share of investments relative to GDP continued to decline in 2018, an unusual evolution in the CEE region.

Unlike **exports,** which have lost much of the momentum (+ 4.7% in 2018, after an upturn of + 10.0%), **imports** continued to grow quite rapidly (+ 8.6% in 2018 against +11.3%), supported by household consumption expenditure. As a result, net exports contributed negatively to GDP growth.

On the manufacturing side, **market services** continued to improve well (+ 5.6%) with the highest growth rate (+ 9.0%) in the IT & C sector. However, value added in construction declined in annual terms (-6.5%), and industrial output (+ 3.5%) began to experience a slowdown in the euro area.

In 2018, **the annual inflation rate** exceeded the NBR target (2.5% +/- 1%), reaching up to 5.4% in May and June, but it again entered the tolerance band at the end of the year, due to base effects and lower oil prices. With declining inflationary pressures, **NBR** adopted a "wait-and-see" expectant approach after implementing a series of tightening measures during H2 2017 - H1 2018. It is worth mentioning that tightening measures led to a significant increase in interbank interest.

The **EUR / RON** rate ended in 2018 at 4.66, but at the beginning of this year, it reached a historical maximum determined by fundamental factors (such as current account deficit developments) and government measures.

In 2018, the **stock of non-government loans** increased by 7.9%, compared with a 5.7% increase in 2017. Loans to households (+ 9.2% vs. 7.8%) and loans to non-financial corporations (+ 6.3% versus + 2.5%) recorded higher growth rates than in the previous year. Household loans continued to grow rapidly (+ 11.1% vs. + 13.2%), while consumer credit increased also (+ 6.9% vs. + 2.0%). The share of credits in lei reached a new multi-year record level. At the same time, the rate of **non-performing loans** decreased to 4.95% from 6.41%.

The provisional data of the NBR showed that the profitability of the sector improved, with the **ROE** index rising to 14.85% compared to 12.51% in the previous year. At the same time, the capital adequacy ratio remained high, reaching 19.7% last year. This was accompanied by a decrease in the **loan/ deposit ratio** (the ratio fell by about one percentage point below 75%), indicating that the sector has become more resistant to internal and external shocks

Key economic indicators		2017	2018
Real GDP	%	7,0	4,1
Final consumption of households	%	9,0	4,7
Consumption expenditure of households	%	10,1	5,2
Consumption of public administrations	%	2,6	3,8
Gross fixed capital formation	%	3,5	-3,2
Export of goods and services	%	10,0	4,7
Import of goods and services	%	11,3	8,6
Consumer prices	% medie	**1,3**	**4,6**
* Budget deficit	% din PIB	**-2,9**	**-3,0**
* Public debt	% din PIB	**35,1**	**35,0**
* Current account	% din PIB	**-3,2**	**-4,6**
Monetary policy interest rate	% medie	**1,8**	**2,4**
Monetary policy interest rate	% sf, de per,	**1,75**	**2,50**
EUR / RON	medie	**4,57**	**4,65**
EUR / RON	sf, de per,	**4,66**	**4,66**
Nominal GDP	mrd RON	**856,7**	**940,5**
Unemployment	%	**4,9**	**4,2**
Nominal wage growth	%	**14,8**	**13,1**
Real wage growth	%	**13,3**	**8,1**
Nominal GDP	mrd EUR	**187,6**	**202,1**

EU Financial Perspective 2014–2020

In August 2014, Romanian authorities signed a Partnership Agreement with EC for the 2014–2020 financial period. In order to achieve the economic growth aspirations reflected in the global objective of the agreement, Romania has identified five development challenges: competitiveness and local development, people and society, infrastructure, resources, administration, and government. Investments in the priority areas will be instrumental in helping Romania to respond to the priorities of the Europe 2020 Strategy, and country-specific recommendations, including corresponding policy reforms in education, employment, social inclusion and public administration.

Summary of OTP Bank Romania's result: Highlights

- The Bank continued to finance the real economy, being among the banks that grew the financing of legal entities. The market share or loans to legal entities climbed from 3.03% (31 December 2017) to 3.35%, while the market share of deposits and current accounts from legal entities went up from 2.08% (31 December 2017) to 2.53% (31 December 2018);
- The bank has been an active player on the market for mortgage loans, growing its market share from 2.67% (31 December 2017) to 2.95% (31 December 2018), while the monthly market share of new loans overpassed, at times, the 5% mark;
- Customer deposits continued to be on focus with the aim of further strengthening the funding base;
- Solid capital position, with a capital adequacy ratio of 18.2 % (the Bank standalone).

Statement of Financial Position of OTP Bank Romania S.A.

STATEMENT OF FINANCIAL POSITION RON thousand	**December 31, 2018**	**December 31, 2017**	**Variation %**
ASSETS			
Cash	469,476	272,902	72,03%
Current accounts and deposits at banks	598,086	99,660	500,13%
Accounts with the National Bank of Romania	966,354	991,488	-2,53%
Securities at amortized cost	288,678	187,986	53,56%
Loans and advances to customers, net	7,703,992	6,916,906	11,38%
Loans and advances to banks	2,069	121	1,609,92%
Investment securities - Available for sale according to IAS 39	-	403,014	-100,00%
Investment securities at fair value through profit and loss according to IAS 39	-	4,289	-100,00%
Investment securities at fair value through profit and loss	11,426	-	100,00%
Investment securities at fair value through other comprehensive income	698,296	-	100,00%
Investment in Associates and Subsidiaries	11,923	8,611	38,46%
Tangible assets, net	152,316	130,566	16,66%
Intangible assets, net	38,471	19,606	96,22%
Tangible assets classified as held for sale	4,206	5,989	-29,77%
Investment property, net	461	1,440	-67,99%
Derivatives	6,991	2,273	207,57%
Derivatives hedge accounting	3,142	-	100,00%
Current tax asset	13,019	13,019	0%
Deferred tax asset	12,490	32,010	-60,98%
Other assets, net	71,526	54,955	30,15%
TOTAL ASSETS	**11,052,827**	**9,144,835**	**20,86%**
LIABILITIES			
Due to Banks	438,950	11,089	3,858,43%
Demand deposits from banks	38,301	11,089	245,40%
Term deposits from banks	400,649	0	100,00%
Due to customers	7,032,663	6,480,320	8,52%
Demand deposits from customers	2,602,190	2,374,577	9,59%
Term deposits from customers	4,430,473	4,105,743	7,91%
Total deposits	7,471,613	6,491,409	15,10%
Borrowings	2,090,171	1,319,004	58,47%
Derivatives	8,270	4,911	68,40%
Derivatives – Hedging Accounting	25,938	24,475	5,98%
Provisions	123,727	48,220	156,59%
Other financial liabilities and reserves	**117,874**	**104,854**	**12,42%**
Total liabilities	**9,837,593**	**7,992,873**	**23,08%**
SHAREHOLDERS' EQUITY			
Share capital, nominal	1,509,253	1,379,253	9,43%
Share capital inflation effect	42,751	42,751	0,00%
Total share capital	1,552,004	1,422,004	9,14%
Accumulated deficit	-336,770	-270,042	24,71%
Total shareholders' equity	**1,215,234**	**1,151,962**	**5,49%**
Total liabilities and shareholders' equity	**11,052,827**	**9,144,835**	**20,86%**

Cash increased by 72.03% compared to December 31, 2017, their weight in the total assets increasing from 2.98% to 4.25%. As at December 31, 2018, they amounted to RON 469.5 million, out of which RON 169.8 million are in local currency. The caption includes **cash in hand and ATMs.**

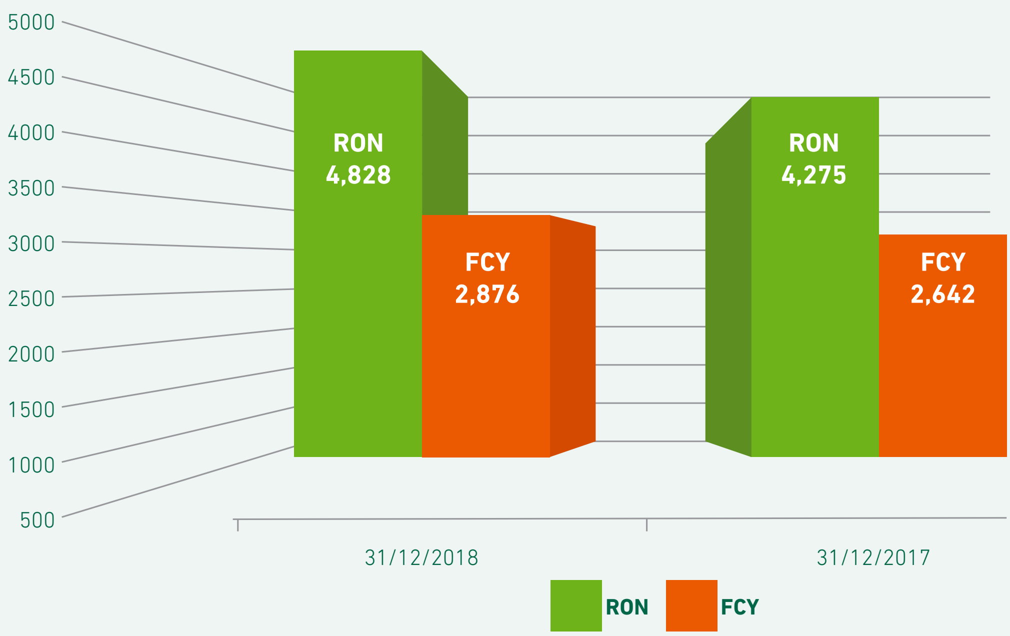
Current accounts and deposits at banks amount to RON 598.1 million (increased by 500%). This item includes **Nostro accounts** (RON 60.8 million), **on demand deposits at other credit institutions** (RON 535.2 million) and **term deposits at other credit institutions** (RON 2.1 million).
The growth is due to liquidity management related actions which shift funds from Money Market to NBR RMO accounts. The growth of the average volumes is around 75%, in line with the additional liquidity collected by the bank throughout 2018. By year-end 2018, the Bank has increased its weight of liquid assets in its balance sheet, in order to secure a more comfortable liquidity position.

Accounts with the National Bank of Romania are in the amount of RON 966.3 million and represent minimum compulsory reserves. They are computed as a percentage to the daily average outstanding of deposits from banking and non-banking customers, for each period of one month.

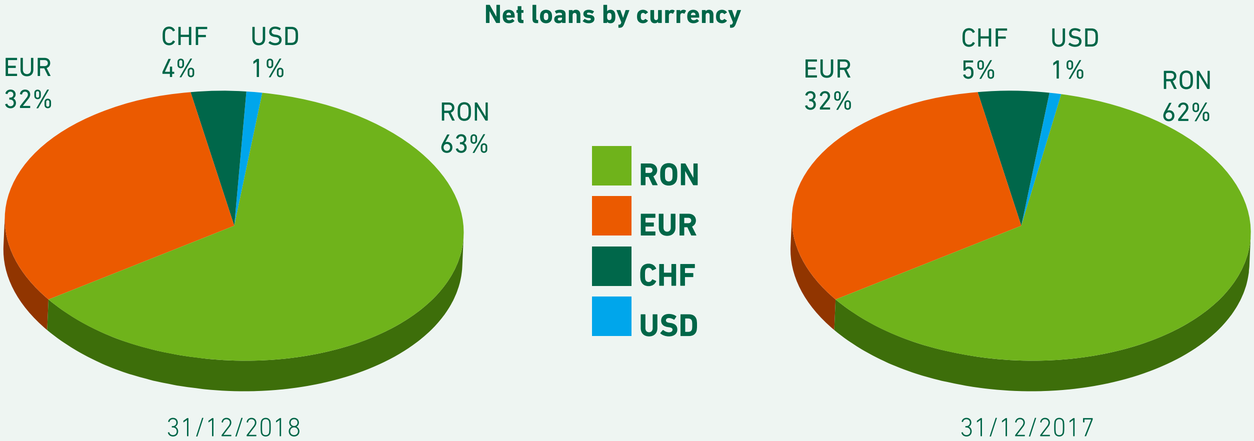
Securities held to maturity, in the amount of RON 288.7 million as at December 31, 2018, includes securities issued by Ministry of Finance. The treasury bonds are unencumbered and at the immediate disposal of the Bank.
The Bank has increased in the portfolio of securities, as part of its liquidity management and diversification of assets.

Loans and advances to customers, net are in amount of RON 7,704 million at December 31, 2018, and presents the following structure:

- Private individuals – RON 4.040 million RON (RON 3.774 million at December 31, 2017)
- SME – RON 2,732 million RON (RON 2,240 million at December 31, 2017)
- Corporate – 932 million RON (RON 903 million at December 31, 2017).



Net loans by currency



Investment securiti es at fair value through other comprehensive income increased in 2018 by 77.01%, and includes bonds issued by: **Ministry Of Finance of Romania** (RON 359.9 million), **Ministry Of Finance of Poland** (RON 106.5 million), **Ministry Of Finance of Slovenia** (RON 47.9 million), **Ministry Of Finance of Spain** (RON 167.4 million) and **Municipal Bucharest City Hall** (RON 5.2 million).

Similarly, to its portfolio of securities held to maturity, the Bank invested in a diversified range of RON and foreign-denominated portfolios and strengthened its liquidity position through having a higher share of liquid assets in its balance sheet.

Based on the availability of securities in the market and their return and maturity, the Bank also purchases securities issued by other EU countries.

Other investment securities at fair value through other comprehensive income in amount of RON 11,331 million at December 31, 2018 comprises: investment in **OTP Asset Management SAI SA** (RON 0.7 million), **S.N.C.D.D**. (RON 0.5 thousand), **VISA** (RON 7.9 million), **MasterCard** (RON 2.2 million), **OTP Factoring SRL** (RON 75 thousand), **SWIFT** (RON 192 thousand), **Aloha Buzz SRL** (RON 0.01 thousand), **Favo Consultanta SRL** (RON 0.01 thousand), **Tezaur Cont SRL** (RON 0.01 thousand) and **"Dreptul la Educatie" Foundation** (RON 80 thousand).

Other investments include unit funds held by the Bank: **OTP Premium Return** (RON 2.3 million), OTP Euro Premium Return (RON 2.5 million), **OTP Dollar Bond** (RON 4.5 million), and **OTP Real Estate & Construction** (RON 2.2 million). During 2018, the Bank placed seed money in the fund OTP Real Estate & Constructions.

Investment in Associates and Subsidiaries represent the Bank's equity investment in **OTP Leasing Romania SA** in the amount of RON 11.7 million, increasing the bank's participation during 2018. The other equity investments are in **OTP Consulting Romania SRL** in the amount of RON 210 thousand and **OTP Advisors SRL** of RON 4.7 million gross value for which impairment in the amount of 4.7 million was recognised.
The Bank increased the share capital of OTP Leasing Romania, along with the other shareholders from the OTP Group, so as to sustain the growth plan of the leasing entity and ensure compliance with regulatory limits.

Tangible assets, net are in the amount of RON 152.3 million as at December 31, 2018 (RON 130.6 million at 31 December 2017). Tangible assets are recognized using the revaluation method; the bank performed in 2018 the revaluation of land and buildings with an external evaluator, ANEVAR member.

Intangible assets, net increased by 96.2% compared to the previous year's balance, having a value of RON 38.5 million at December 31, 2018, the bank invested in increasing efficiency of the activities through automation.
During 2018 the Bank increased its spending on capital expenditure and investments, supporting its growth strategy. The investments are related to business initiatives and digitalization, as well as compliance with regulatory measures.

The Bank owns as at 31 December 2018 fixed assets and disposal groups, classified as **held for sale** amounting to RON 4.2 million, representing the stock of buildings from the foreclosures, which are put on sale.

Investment property, net amounts to RON 0.4 million and contains foreclosed real-estate, formerly collateral for loans granted to customers.

Derivatives (assets) are in the amount of RON 10.1 million at December 31, 2018, of which RON 3.1 million are hedging derivatives. This caption includes the debit balances of the accounts where the fair value of the forward contract is recognized (debit balances represent positive differences when derivatives contracts are evaluated).

Other assets, net increased by 30.15%, and are in amount of RON 71.5 million at December 31, , and represent amounts in transit/settlement: RON 44.5 million (RON 29.7 million as at December 31, 2017), sundry debtors: RON 9.7 million (RON 10 million as at December 31, 2017), prepayments: RON 6.3 million (RON 6.7 million as at December 31, 2017), deferred income RON 4.1 million (RON 3.5 million as at December 31, 2017), advances to personnel, tax receivables, advances for tangible and intangible assets, inventory, collateral received RON 6.9 million (RON 5 million as at December 31, 2017).

Liabilities due to banks have seen a significant increase over last year and are in the amount of RON 438.9 million and comprised: Loro accounts (RON 15.3 million), sight deposits (RON 22.97 million) and term deposits (RON 400.63 million).

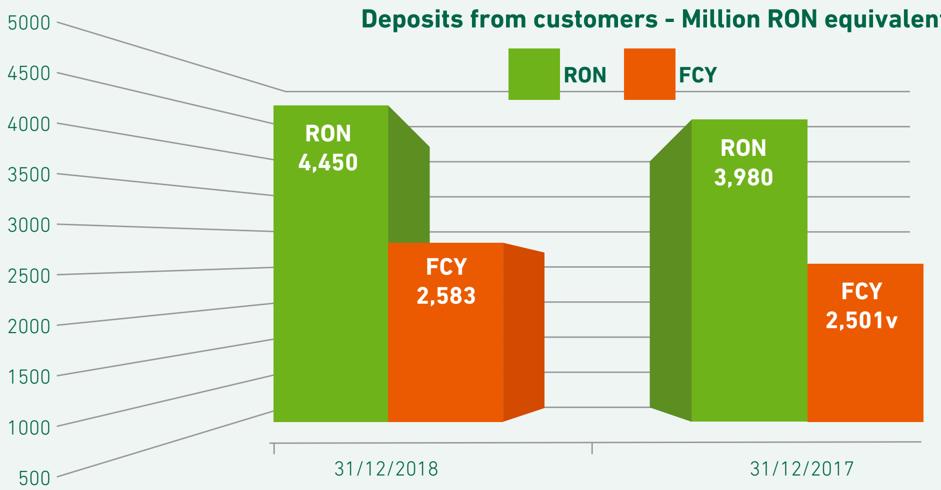
The Bank enjoys the full and substantial support of the Group, both for funding its balance sheet growth and its capital and liquidity position. The Bank's aim remains to increase its share of financing from customer deposits and current account but it also relied on group funding.

Liabilities due to customers presents the following structure:

- current accounts – RON 2,602 million (RON 2,104 million at December 31, 2017)
- sight deposits – RON 278.8 million (RON 270.4 million at December 31, 2017)
- term deposits – RON 4,346 million (RON 3,988 million at December 31, 2017)
- collateral deposits – RON 84.6 million (RON 117.6 million at December 31, 2017)

Within deposits are included Accrued and amortized amounts.

During 2018, as part of its efforts to improve its liquidity and funding position, the Bank has stepped up its efforts to attract new customers and new funds. On one side, it ran a promotional campaign with attractive interest rate for RON Term Deposits of Private Individuals. On the other side, it ran marketing campaigns promoting its liability products.



Borrowings are in the amount of RON 2,1 billion at December 31, 2018. Are included here: the loan from **European Investments Bank (EIB)** with an outstanding balance of RON 6.7 million, the loan with the OTP Financing Malta Company LTD for the amount of RON 1,383.7 million and the loan with OTP Financing Netherlands B.V. amounting to 699.7 million.

Derivatives (liabilities) in the amount of RON 8.2 million at December 31, 2018, (December 31, 2017 RON 4.9 million) represent the negative fair value of derivatives. Value of hedging derivatives is of RON 25.9 million for 2018 (RON 24.5 million for 2017).

Provisions increased in 2018 by 156%. The provisions for loan commitments, financial guarantees and other commitments given are in amount of RON 36 million (RON 7.5 million at December 31, 2017), provisions for litigation are in amount of RON 68.3 million (RON 29.4 million at December 31, 2017), provisions for other employee benefits are in amount of RON 14.8

million and other provisions are in amount of RON 4.6 million. The provisions for litigations spiked due to one significant case, that required additional coverage, based on the legal assessment of the risk, following the preliminary Court decisions.

Other liabilities are in amount of RON 117,9 million as at December 31, 2018 and include amounts from **transitory accounts** RON 57.8 million, **allowances and salaries** – RON 5.7 million, **various contributions to the state budget** of RON 8.4 million, **sundry creditors** of RON 9.3 million, **deferred income** – RON 8.2 million and **expenses to be paid** - RON 28.2million.

Shareholders' equity is RON 1,215.2 million, from which:

- Share capital RON 1,509.2 million:
- Share capital inflation effect: RON 42.8 million;
- Revaluation reserves for fixed assets, net: RON 50.3 million;
- Revaluation reserves for securities at fair value through other comprehensive income: RON 7.7 million;
- Other reserves: RON 5.9 million;
- Retained earnings RON (428) million;
- Current year's profit of RON 26.2 million.

SEPARATE INCOME STATEMENT	Note	Year ended December 31, 2018	31-Dec-17
Interest Income		450,042	352,433
Interest Expense		-105,028	-59,575
Net interest income	6	**345,014**	**292,858**
Fee and commission income		78,161	71,139
Fee and commission expense		-29,352	-24,177
Net fee and commission income	7	**48,809**	**46,962**
Impairment losses	8	**-120,862**	**-21,803**
Net interest, fee and commission income after impairment losses		**272,961**	**318,017**
Trading income, net	9	63,710	52,122
Gains or losses on financial assets and liabilities designated as at fair value through profit or loss - net		-2,326	459
Gains or losses on financial assets and liabilities designated as at fair value through other comprehensive income		-191	-
Other operating income	12	15,678	19,270
Total income from financial operations		**76,871**	**71,851**
Total operating revenues		**349,832**	**389,868**
Salaries and related expenses	10	-151,553	-126,953
Other administrative expenses	11	-116,103	-116,244
Depreciation of tangible and Intangible assets	19	-18,373	-17,534
Other operating expenses	12	-20,217	-28,361
Total non-interest expense		**-306,246**	**-289,092**
Profit / (Loss) before income taxes		**43,586**	**100,776**
Deferred tax expense	29	-17,369	-16,255
Net profit for the period		**26,217**	**84,521**
Items that will not be reclassified to profit or loss			
Revaluation of property, plant and equipment (net of deferred tax)		13,911	-3,662
Net change in fair value of financial assets through other comprehensive income (net of deferred tax) - equity		1,938	-
Items that may be reclassified to profit or loss		**15,849**	**-3,662**
Net change in fair value of financial assets through other comprehensive income (net of deferred tax) -debt instruments		-6,079	-
Net change in fair value of financial assets available for sale (net of deferred tax) -debt instruments		-	6,709
Total items that may be reclassified to profit or loss		**-6,079**	**6,709**
Other comprehensive income, net of tax		**9,770**	**3,047**
Total comprehensive income for the reporting period		**35,987**	**87,568**
Basic earnings per ordinary share	31	**4,17**	**14,71**

The Income Statement of the bank for the period ended as at December 31, 2018, is as follows:

Interest income increased by 27.70 %, mainly linked to:

- loans of RON 433.7 million (RON 340.2 million in 2017),
- placements with other credit institutions and Central Bank RON 3.7 million (RON 0.6 million in 2017)
- securities and reverse repo agreements RON 12.7 million (RON 11.3 million in 2017).

Interest expenses increased by 76.3%. The structure of Interest expenses is as follows:

- RON 77.3 million from customers' deposits (RON 47.3 million as at December 31, 2017)
- RON 22.2 million from borrowings (RON 11.1 million as at December 31, 2017)
- RON 5.5 million are related to deposits from banks (RON 1.1 million as at December 31, 2017).

Fee and commission income is in the amount of RON 78.1 million (increased by 9.87% compared to 2017) and **fee and commission expenses** are in the amount of RON 29.4 million (increased by 21.4% compared to 2017).

Impairment losses increased significantly from RON 21.8 million to RON 120.9 million as a result of the methodology for calculating impairment adjustments in line with the new IFRS 9 reporting standard. With this Standard, depreciation adjustments for expected losses are calculated for all financial assets, and for loans granted according to the stages in which they are located, adjustments are calculated for expected losses over the next 12 months or expected lifetime losses. Also, in this position is the increase in provisions for litigation.

Trading income, net increased by 22.23%, from 52.1 million in 2017 to RON 63.7 million in 2018. This item contains **net result from derivatives, concluded mostly** with the parent company and **the net result from the revaluation of the open currency position.**

Gains (losses) on de-recognition of assets other than held for sale – net is in the amount of RON 0.2 million and include mainly losses on the disposal or write-off of tangible and intangible assets during the year (RON 3.8 million in 2017).

Other operating income is in the amount of RON 15.4 million. These incomes include **fees for non-banking services** – RON 2.3 million, **incomes from insurance** – RON 1 million, **other operating income** – RON 5.5 million, **other income and fees related to the loans** – RON 6.1 million and others.

Salaries and related expense are of RON 151.6 million at December 31, 2018, increased by 19.38% compared to the previous year (RON 126.9 million).

Salary costs were driven up by market conditions, more staff and sales results.

The growth of average salaries from the period 2016-2018, both in the private and especially the public sector, has put pressure on the bank's cost. In order to retain and acquire staff, the Bank had to stay competitive and offer wages in line with the market.

The additional staff was driven by business needs but as well by the need to cover the operational gap in head-office staff, for areas such Compliance / KYC / AML.

Sales results, which saw the Bank growth above the market for loans to legal entities and mortgage loans, also drove up to the sales-related salary costs.

Other administrative expenses are in the amount of RON 116.1 million at December 31, 2018, decreased by 0.21 % compared to the previous year (RON 116.2 million in 2017).

Depreciation of tangible and intangible assets is of RON 18.4 million at December 31, 2018, compared to RON 17.5 million in 2017.

Other operating expenses are in the amount of RON 20.2 million (RON 28.4 million in 2017). These include **fines and penalties** of RON 0.4 million, **sponsorship expenses** of RON 2.5 million, **expenses representing prizes,**

sales competitions of RON 0.7 million and **other expenses** of RON 17.9 million.

Net profit for the period is RON 26.2 million in 2018 (RON 84.5 million in 2017).
The net profit also accounts for the provision of one significant litigation, build in December 2018.

Risk management within OTP Bank Romania S.A.

The main risks that the Bank faces include:
- Credit risk;
- Market risk – (interest rate risk, foreign currency risk, etc.);
- Liquidity risk;
- Operational risk.

Other risks managed by the bank are a reputational risk, risk due to outsourced activities and compliance risk.

Credit Risk Management

The credit risk is associated with the loans granted by the Bank, is the risk that the customer will be unable to fulfill its obligations thus causing financial losses to the Bank.

The Bank's main objective regarding credit risk management was to maintain the portfolio quality by monitoring the evolution of a set of indicators, which are detailed in the Risk Strategy for 2018.

The Bank's main objectives regarding credit risk management are:

- Developing a diversified portfolio, the performance of which does not excessively depend on the changes in the position of any particular sector, geographical region or debtor group, that ensures stable profitability in the long run;
- Increasing the profitability of the credit products;
- Credit approval and keeping assumable risks within limits;
- Increasing the capacity to collect overdue receivables;
- Maintaining the solvency indicator within normal limits so that the capital requirement for credit risk is not increasing excessively;
- Maintaining the portfolio quality by monitoring the evolution of a set of indicators, which is detailed in Risk Strategy 2018.

The Bank's strategy regarding credit risk management includes:

- Putting a strong emphasis on preventing problems faced by borrowers;
- Improving debt collection;
- Customer loyalty program for individuals by offering new products facilities in accessing credit;
- Encouraging lending activity (in RON) both to private individuals and to companies;
- Develop and implement a new scoring model for personal loans in order to improve portfolio quality unsecured loans
- Development and implementation of two new behavioral scoring models for personal loans and mortgages to be used in the staging process according to the methodology for calculating provisions IFRS 9
- Involving the territorial network and the Corporate Banking Division in managing the problems customers are faced with;
- Monitoring new loan portfolio, especially for new consumer loans to individuals, through reports at least monthly and information presented for the Management Board and Supervisory Board of the Bank.

The credit risk is managed in compliance with lending norms approved by the Board of Directors, based on the risk related type of products.

As part of the overall credit risk management, the credit concentration risk is actively managed using standard tools (e.g. analysis, assessment, a setting of internal limits, reporting and use of risk mitigation techniques as appropriate).

The Bank aims not to take any excessive credit concentration risk. Credit concentration risk management procedures cover individual counterparties as well as economically connected groups, selected industry sectors and collateral providers. The system of internal limits is established such that the Bank complies with regulatory limits set in respect of concentration risk.

Bank portfolio sensitivity to interest rate risk

The Bank grants loans with mainly variable interest rate indexed by reference (ex.: Euribor, Robor) and aims to harmonize the financing structure with the structure of assets and other liabilities so as to maintain a low-interest rate risk exposure.

In 2018 the Bank concentrated on local currency loans and the weight of fixed interest loans increased for consumer loans. On the liabilities side, the bank maintained the maturity structure for client deposits.

The monitoring of the exposure to interest rate risk of banking book and the compliance with the internal limits is done at least monthly, within the Asset and Liability Management Committee.

In assessing the interest rate risk for the banking portfolio, the Bank uses maturity analysis until the next financial assets and liabilities restoration, maturity analysis and stress test scenarios, to estimate the possible effects of interest rate changes on profits, and on the economic value of the Bank.

The methodology used for measuring the impact of an interest rate shock in the economic value of the Bank is the standardized one from the NBR Reg. No. 5/2013 with further amendments, adjusted for optionality risk. At 31st December 2018, with adjustments to take into account the risk of option for loans and deposits, the Bank had low exposure to the interest rate risk on banking book, 2.61% of own funds (4.49% as of December 2017). The decrease in the calculated value was mainly due to the inclusion of non-maturity contractual deposits (current accounts).

During 2018 the exposure to the interest rate risk on banking book had a stable level, medium-low.

Managing the market risk

Market risk is the risk of loss related to balance sheet and off-balance sheet items due to adverse changes in market prices, such as, for example, stock prices, interest rates, currency exchange rates.

The Bank's objective in market risk management is to ensure appropriate management of the risks generated by trading activities, through the implementation of procedures, models and adequate application of monitoring and risk controls related with trading activities.

In view of limiting potential losses due to market risk exposure, the bank manages market risk exposure by means of a set of limits, which shall be set annually and updated periodically according to market conditions, in compliance with a prudent policy, based on the experience of OTP Bank Nyrt Hungary.
The limits are established according to the potential loss and the value of the Bank's equity capital. Market risk limits are set up by OTP Bank Nyrt Hungary and are managed in Market Risk Portal system.

Interest Rate Risk (Trading book)

The interest rate risk refers to the fluctuation in the value of financial instruments included in the trading book due to the changes in the level of market interest rates.

The purpose of the Bank in market risk management is to ensure adequate management in line with trading activities, implementation of procedures, models, and monitoring and control of trading activities.

Starting with 2017, limits for trading with financial instruments sensitive to interest rate risk such as bonds issued by the Romanian Government, interest rate swaps, foreign exchange swaps, deposits and money market placements have been approved. Appropriate assessment and monitoring of the resulting interest rate risk are ensured by implementing a system of limits and the use of appropriate risk management systems.

The Bank has set the following types of limits: the bond position limit, the VaR limit, the Base Value limits (in currencies and for Total), and limitation of loss limits. These limits are monitored using Kondor + and Market Risk Portal systems.

Managing the foreign currency Risk

Currency risk is the risk of loss resulting from changes in the level of exchange rates on the market.
The currency fluctuations induce the risk of losses in value in respect of net monetary assets.

The Bank manages its exposure to movements in exchange rates by permanently adjusting its assets and liabilities mix, based on the market movements in exchange rates. The exposure is daily monitored by Operational and market risk Department.

The bank may trade currencies and take positions in the following currencies: EUR, USD, GBP, CHF, CAD, JPY, HUF, AUD, SEK, DKK, NOK, CZK, and PLN.

Regarding the money market and currency market operations, the risk profile is a reduced one, being unitary managed by using Kondor+ and Market Risk Portal by OTP Bank Hungary.

The open foreign exchange currency position is managed continuously on an automatic basis within Kondor+ according to the internal rules and also considering the NBR regulations.

The Bank has set limits on open foreign currency positions (for each currency and total currencies), VaR and loss stops that are monitored through the Market Risk Portal.

The Value at Risk indicator (VaR) estimates the potential loss over a certain period for a certain degree of confidence. The Bank uses a VaR based on historical data (using an exponential average methodology to determine the observed weighted profit and loss weights) which allows for easy aggregation of risk factors and VaR values for trading departments, thus enabling VaR to be calculated at the Treasury level.

Liquidity Risk Management

The liquidity risk is associated either to the difficulty of an entity to raise necessary funds in order to meet all the commitments when they fall due or to the possibility of incurring losses if the entity has to sell assets in unfavorable conditions or has to attract more expensive supplementary funding.

The bank's objective regarding liquidity risk was to maintain an adequate level of liquidity by ensuring the optimal mix of funding and lending transactions in order to achieve the budget.

As stated on the "Liquidity Strategy" and on the "Liquidity risk administration policy" of the bank, permanently improved and updated in compliance with the local requirements for a prudent regulation but also, in compliance with group requirements, OTP Bank Romania S.A. has implemented an internal system of identification, measurement, monitoring and control of the liquidity risk, structured on two levels: the current liquidity management – the continuity of the activity in normal conditions (the assurance of cash flows for normal business operations) and the management of liquidity on crisis situations – the continuity of the activity in different crisis conditions.

OTP Bank Romania S.A. manages the liquidity risk considering: the estimation of the cash flows needs and of the operative liquidity, the daily banking book structure, the liquidity GAP – on each currency and overall, the level and the structure of the liquid assets portfolio, the liquidity indicators – calculated on a daily basis and having early warning limits internally established, the simulation regarding the liquidity indicators levels, the risk assessment on crisis situations by using stress tests.

If the indicators monitored in the reports enumerated above, register an attention or crisis level the the Assets and Liabilities Committee evaluates the situation and disposes of necessary measures needed for the indicators to revert to normal levels. If the measures taken in Assets and Liabilities Committee did not lead to an improvement of the monitored liquidity indicator, the alternative plan for liquidity management in crisis situations will be activated.

Strict monitoring and prudent management of liquidity are supervised by the Assets and Liabilities Management Committee.

During 2018, following the recommendations made by the National Bank of Romania in the annual control mission and the related oversight report, the Bank undertook to improve the level of the immediate liquidity indicator to around 30% (compared to a level about 25% in advance). In this respect, the bank approved an action plan and ordered a series of measures to increase customer deposits (deposit-taking campaigns) and attract new funding from the Group in order to achieve the proposed objective. During 2018, the bank obtained new funding from the OTP Group, in cumulated value of EUR 96 million and RON 350 million (including refinancing within the Group of loans granted by the bank). The maturity of funding of RON 250 million was extended in advance to support lending activity and to improve liquidity, the LCR level.

The Bank met its target on the immediate liquidity target, with an immediate liquidity level of about 32% on 31.12.2018.

At December 31, 2018, the aggregate value for stand-by credit facilities contracted with the parent bank with purposes of use in a liquidity crisis (and unused at December 31, 2018) represent 746,224 thousand RON equivalent (1,351,313 thousand as at December 31, 2017).

Managementul riscului operațional

Operational risk is the risk of loss resulting from the use of inappropriate internal processes, persons or systems, or failure to perform its function properly or from external events, and includes legal risk. Legal risk is the risk of loss caused by fines, penalties, and sanctions to which the credit institution is exposed in the event of non-application or defective application of legal or contractual provisions, i.e. the inappropriate establishment of contractual rights and obligations of the credit institution and/or of its counterpart.

The Bank seeks to minimize the risks arising from inappropriate systems and processes, human error as well as external factors by developing an appropriate control environment and risk awareness and also by transferring them through insurance or by setting up of operating risk provisions.

The Bank has an operational risk management framework that includes policies and processes for identifying, measuring/evaluating, analyzing, monitoring and managing/controlling operational risk. Policies and processes are appropriate to the size, nature and complexity of the Bank's activities and are adjusted periodically according to the operational risk profile in case of change, and in line with external market developments.

Bank operational risk policy aims:

- periodic review of the operational risk management framework within the Bank
- Providing operational risk provisions to minimize the impact of losses from operational risk events across the entire bank;
- Permanent support provided to the organizational units for the reporting of operational risk;
- Informing the organizational units on the decisions taken by the Operational Risk Committee and the Bank's Management Board.
- assessing the exposure to operational risk based on the loss history recorded and the permanent updating of the database of events generating operational risk losses reported by the organizational units;
- Evaluating activities and processes, products and systems by producing

annual self-evaluation of activities and processes conducted within all organizational units to report risks already identified during the course of the activity or potential risks and control measures to reduce the occurrence or elimination of risks.
- Creating scenarios in order to establish resumption or continuation plans and contingencies. The business continuity plan is one of the operational risk management tools.

Capital management within OTP Bank Romania S.A.

The Bank manages its capital with the objective of maintaining a strong capital base to support its business activities and to meet capital regulatory requirements in the current period and going forward. The Bank's capital level planning process is based on a regular capital structure analysis and a forecast, which takes into account future capital requirements generated by increasing business volumes and future risks as expected by the Bank. This analysis principally leads to adjustments of the level of the Bank's dividend pay-out (if it's the case), identification of future capital needs and maintenance of a balanced capital composition.

Derivative Financial Instruments

In the ordinary course of business, the Bank is a party to contracts for derivative financial instruments, which represent a very low initial investment compared to the notional value of the contract. Generally, derivative financial instruments include currency forward, swap agreements, and interest rate swap. The Bank mainly uses these financial instruments for business purposes and to hedge its currency exposures associated with transactions in financial markets.

Derivative financial instruments are accounted for on a trade date basis and at subsequent reporting dates are revaluated at fair value. The fair value of derivatives is determined using valuation techniques consisting of updating future cash flow estimates with a rate derived from the market yield curve and the exchange rate conversions resulting from the use of the NBR rates valid on the day of the calculation. The fair values of derivative transactions are calculated individually.

Management's assessment of fair values

Where the fair value of financial instruments cannot be derived from the active market, the Bank establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations. Deciding on the model inputs requires judgment.

Communities

The Bank approach remained unchanged in 2018: OTP Bank has a business philosophy which influences the decisions in many aspects of the company's life. The Bank has always in mind the social and environmental impacts when it comes to business operations or interactions with his stakeholders. The Bank is committed within core business and beyond: it is connected with the communities it is part of, thus it takes responsibility for them.

Sponsorship policy

As a responsible and active citizen, OTP Bank Romania invests in communities' well-being through sponsorships. It expresses and strengthens his commitment to its values. It builds long term cooperation. The Bank most significant community investment is the "Right to Education" Foundation, aiming to enhance financial literacy.

Financial education is in the center of the Bank social responsibility activities. The Foundation is supported by OTP Bank Romania and OTP Fáy András Foundation, having experience of over 20 years in the field of financial education. The main objective of the Foundation is to improve the financial, economic and managerial skills among secondary school students. In October 2018, OTP Financial Fitness was launched, an adult financial education program that provides tools, methods, and techniques that both experienced and uninitiated have the opportunity to acquire responsible financial behavior.

In 2018, the Bank updated its sponsorship policy and created clearer and more objective communication of the approval process. At the same time, the key areas of the policy remained unchanged in 2018, so that sponsorship initiatives are developed and implemented under the umbrella of CSR, based on three main directions:

- **OTP Equal Opportunity Program:** we support disadvantaged groups with physical or mental disabilities lacking resources to have access to adequate education as well as children and youth organizations. We try to help these groups by improving the quality of life and integrating them into society;
- **OTP Community:** volunteers participating in events and programs that support local communities;
- **OTP Sport Program:** we promote sports organizations, competitions and recreational activities involving physical and mental strength, concentration, tactical skills and teamwork.

OTP Community

OTP Community is an internal volunteer program initiated by OTP Bank Romania in October 2016 dedicated to employees who want to impress their local community and contribute to the implementation of the financial education activities of the Foundation for Education Rights, established by OTP Bank in 2014.

The main objective of the OTP Community is to support the education of children from disadvantaged areas and to prevent school dropout.
In 2018, OTP Community volunteers contributed to the local community through:

- Internal fundraising actions: three thematic fairs where the producers and buyers are employed by OTP Bank Romania
- 1 day trip to Bucharest for 45 children from Vrancea County (Motnau and Dumitreștii Faţă);
- Participation in two editions of the Bucharest Marathon, where 28 volunteers ran for the ATCA Association. Funds raised on Galantom.ro reached 2,220 lei for 20 beneficiaries
- Letters for Santa Claus within the Vodafone Romania campaign - 56 gifts purchased by OTP Bank Romania employees
- 115 trolleys purchased by OTP Bank Romania employees for Edulier Association "Back to School 2018"
- Basic food donation and 15 computers to the Rainbow Foundation in Filipisu Mare, Mureș County, for the 50 children in their care
- Fundraising program in the 2% donation campaign, where 5 NGOs benefited from the support of 25 OTP Bank employees
- Blood donation sessions in the office - In 2018, OTP Bank Romania organized 4 sessions with over 30 eligible participants in each session. The amount of blood taken from a person (450 ml) helps to save 3 lives; so in 2018, OTP Bank employees helped save 360 lives.

Environment

The Bank strives to operate its offices in an environmentally friendly way. Reducing our energy, water, paper consumption is also important for saving costs.
The Bank electricity supplier ensures that a significant ratio of our consumption derives from renewable resources.
Business travel is a significant portion of our environmental impact. At the same time, the Bank used the video conference infrastructure to the full and whenever possible.

As a result of digitalization program, several paperless initiatives were maintained in 2018:

- post mail is replaced by e-mail as much as possible both in internal and external communication;

- the Bank introduced an IT solution for scanning and electronic archiving;
- the Bank has implemented solutions for streamlining the operational activity by using the extracts received from the inter-bank transfer system provider in electronic format
- the e-products eliminate the use of paper in the processes.

Besides the headquarters, Bucharest branches are involved in the centralized waste paper collection.

Employees

The Bank is aware of the importance of its staff in its success and in achieving its mission.

The Bank started the implementation of the organizational development program and the main objectives of the program are:

- to collaborate better;
- to communicate more efficiently and;
- to build a learning culture.

Within the framework of the organizational development program, the Bank placed great emphasis on trainings, especially, on the improvement of communication skills.

Human Rights

The Bank is committed to maintain and improve the systems and processes that enable it to ensure respect for human rights in the operations and management of human resources, its supply chain, and its products and services.

The commitments of OTP Bank S.A. regarding human rights are guided by the following conventions, standards and initiatives:

• Universal Declaration of Human Rights, the International Covenant on Civil and Political Rights, and the International Covenant on Economic, Social and Cultural Rights;
• Fundamental Conventions of the International Labor Organization, aimed in particular at eliminating forced labor and child labor, discrimination in work, and freedom of association and the effective recognition of the right to collective negotiation;
• United Nations Guidelines on Business and Human Rights;
• OECD guidelines for multinational enterprises;

The Bank is determined to act with integrity and in accordance with the applicable laws in all its activities.

One notable example is the Code of Conduct, where OTP is committed to respecting human rights and the rules set by the International Labor Organization. The same applies to the policies and processes developed by OTP Bank SA in relation to its obligations to combat money laundering, terrorism, and corruption.

Corruption and bribery prevention

The desire to maintain an adequate and safe internal control environment and the need to protect the bank's reputation has determined OTP Bank Romania SA to treat corruption and bribery prevention as a top priority.

No employee or any other empowered person shall ever offer, promise or pay, neither accept any valuable assets, with the purpose to influence public clerks or other persons or to obtain an unfair business advantage.

Offering gifts is often part of local culture and traditions, that is why offering gifts in business affairs and in relation to clients might preserve a good reputation and enable business cooperation. Usual gifts for business purposes may be offered and accepted within strictly internally regulated limits. Nevertheless, employees are forbidden to offer or accept gifts in such circumstances that might be interpreted as influencing a business decision or as bribery.

Business decisions are always taken according to the bank's interests and never to favor the personal relationship that can be developed based on the granted gifts or other facilities. Bank's employees are also forbidden to offer – on their labor relationship – any financial or nonfinancial support to any political party, organization, member of representative thereof.

Bank's objectives for 2019

The bank pursues its medium-term strategy, focused on delivering value to customers through professional excellence, focusing on digitalization and sustainable growth.

The goals of the strategy are to improve shareholders' value and improve profitability and profit, through efficiency and growth, by its own forces, organically.

The growth of the bank is to be achieved by increasing the number of active customers, who are generating revenues, with special attention to home-bank customers.

Appealing to customers, the bank targets a higher penetration of internet and mobile banking, a higher usage of online channels for sales, in an overall effort to augment digitalization. The bank will also rely on direct sales agents, a flexible and mobile sales force.

Another strategic objective of the bank is to continue product innovation, in a highly competitive market.
Focusing on deposits collection, the bank will offer targeted products, balancing its need for liquidity and stable funding, with the customer needs for pricing and availability.
Lending to legal entities will continue to address their short- and long-term needs, with a new focus on improving the visible result from the recent lunch Commercial Factoring product.

Lending for SME will be automatized to a greater extent, via e-loan products.

The existing portfolio of products will be extended with dedicated offers for co-financing alongside EU funds or quick loans.

The bank will optimize its lending processes, will invest in software dedicated to customer relationship management and business & processes management.
In line with market conditions, the bank will balance new funding from the customers versus the Group, so as to achieve both short-term pricing and long-term sustainability.

During 2019 the bank will invest in the OTP brand, creating Brand awareness through marketing campaigns.

The bank will also target its resources, with a focus on its employees, and will continue to maintain an adequately motivated and trained staff, properly managed so as to deliver sales and quality targets.

Subsequent events

No subsequent event was identified after the reporting date.

Proposals

As a consequence of the above-presented activity performed during the financial year 2018, OTP Bank Romania S.A.'s Management Board submits to the General Shareholders Meeting approved the following:

- Report of the Management Board regarding the development and performance of OTP BANK ROMANIA S.A.'s activities and its financial position for the financial year ended December 31, 2018;
- Discharging of the members of the Management Board from their duties related to the2018 financial year.

Gábor Ljubičić,
Vice-Chairman of the Management Board and Deputy CEO

Mara Cristea
Member of the Management Board and Deputy CEO

Deloitte Audit S.R.L.
Şos Nicolae Titulescu nr. 4-8
Intrarea de est,
Etajul 2-zona Deloitte şi etajul 3
Sector 1, 011141, Bucureşti
România

Tel.: +40 21 222 16 61
Fax: +40 21 222 16 60
www.deloitte.ro

INDEPENDENT AUDITOR'S REPORT

To the Shareholders,
OTP Bank Romania S.A.

Report on the Audit of the Separate Financial Statements

Opinion

1. We have audited the separate financial statements of OTP Bank Romania S.A. (the Bank), with registered office in 66-68 Buzesti street, District 1, Bucharest, Romania, identified by unique tax registration code RO 7926069, which comprise the separate statement of financial position as at December 31, 2018, and the separate statement of profit or loss and other comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, including a summary of significant accounting policies and notes to the separate financial statements.

2. The separate financial statements as at December 31, 2018 are identified as follows:

• Equity	RON	1,215,234,194
• Net profit for the financial year	RON	26,217,003

3. In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Bank as at December 31, 2018, and its separate financial performance and its separate cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRSs") and National Bank of Romania Order no. 27/2010 for the approval of Accounting regulation in accordance with International Financial Reporting Standards as adopted by the European Union, with subsequent amendments, ("Order 27/2010").

Basis for Opinion

4. We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and the Council (forth named "the Regulation") and Law 162/2017 ("the Law"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), in accordance with ethical requirements relevant for the audit of the financial statements in Romania including the Regulation and the Law and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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Impairment of loans and advances to customers	
Nature of the area of focus	***How our audit addressed the key audit matter***
Refer to note 18 and accounting policies 3.8.6 from the separate financial statements. *The Bank applied IFRS 9 – "Financial Instruments" which replaces "IAS 39 – Financial Instruments" starting with 1 January 2018. The key change arising from adoption of IFRS 9 is that the Bank's credit losses is now based on expected credit losses (ECL) rather than an incurred loss model.* *As at 31 December 2018, the Bank has booked Impairment allowances of 392.8 mil RON for the Loans and advances to customers in gross amount of 8,096.8 mil RON.* *The Bank exercises significant judgement using complex models, extensive data and subjective assumptions over both when and how much to record as loan impairment.* *Key areas of judgment included:* • *The interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the expected credit loss model.* • *Assumptions used in the expected credit loss models to assess the credit risk related to the exposure and the expected future cash flows of the customers.* • *The identification of exposures with a significant deterioration in credit quality.* *Because loans and advances to customers form a major portion of the Bank's assets, and due to the significance of the Management judgments applied in classifying loans and receivables into various stages stipulated in IFRS 9 and determining related impairment requirements, this audit area is considered a key audit matter.*	*Based on our risk assessment and industry knowledge, with the support of our Credit risk experts, we have examined the impairment charges for loans receivables and evaluated the methodology applied as well as the assumptions made according to the description of the key audit matter.* *Our procedures included the following elements:* *<u>Testing of internal controls</u>* *We have challenged the appropriateness of key processes and related controls management has established to support their impairment calculations, including:* • *controls for quality assurance of the source data used in developing professional judgements and ECL related models;* • *controls related to timely identification of impairment triggers, including significant increase in credit risk;* • *controls related to debtors financial performance assessment and estimation of future cash flow* *For the controls identified to be relevant in addressing the risks, we have tested the design and operating effectiveness of these controls.* *<u>Obtaining and analysing the evidence to support the assumptions used in:</u>* • *Development of the models for computation of the key risk parameters (12 month probability of default, lifetime Probability of default and Loss given default), including procedures on the source data quality;* • *Development of the expected credit loss models* • *Development of the stage allocation; and* • *Development of models to reflect the potential impact of future economic conditions in the ECL computation.* *<u>Test of the implementation of the new methodology into the ECL computation systems, including:</u>* • *Test the general IT controls related to the data sources and computations of ECL;* • *Assessment on a sample basis of the credit quality and stage allocation; and* • *Test on a sample basis the ECL computations.* *We have analysed the adequacy of significant ECL-related disclosures for compliance with the relevant IFRS requirements.*

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Interest and Fee Income Recognition	
Nature of the area of focus	***How our audit addressed the key audit matter***

Refer to Note 6 and 7 of the separate financial statements
 	
For the year ended 31 December 2018 the interest income represents RON 450 mil RON and fee and commission income represents 78 mil RON, the main source being loans to customers. These are the main contributors to the operating income of the Bank affecting the Bank's profitability.
 	
While interest income is accrued over the expected life of the financial instrument using the effective interest rate, the recognition of fee income depends on the nature of the fees as follows:
• *Fees that are directly attributable to the financial instrument are part of the effective interest rate and accrued over the expected life of such an instrument and are presented as interest income.*
• *Fees for services provided are recognized when service is provided and are presented as fee and commission income.*
• *Fees for the execution of an act are recognized when the act has been completed and are presented as fee and commission income.*
 	
Revenue recognition specifics, a high volume of individually small transactions which depends on data quality of interest and fee inputs and on IT solutions for their recording, resulted in this matter being identified as a key audit matter.
	We have tested the design and operating effectiveness of the key internal controls and focused on:
	• *Interest/fee inputs on customer loans and deposits;*
	• *Recording/ changes of fees and interest rates;*
	• *Management oversight and control on interest and fee income, including budget monitoring;*
	• *IT controls relating to access rights and change management of relevant automated controls with the assistance of our IT specialists.*
	
	We performed also the following procedures with regard to interest and fees revenue recognition:
	• *We evaluated the accounting treatment performed by the Bank in respect of fees charged to clients to determine whether the methodology complies with the requirement of the relevant accounting standard (IFRS 9). We have focused our testing on challenging the correct classification of:*
	  ◦ *Fees that are identified as directly attributable to the financial instrument and are part of the effective interest rate;*
	  ◦ *Fees that are not identified as directly attributable to the financial instrument.*
	• *We assessed the completeness and accuracy of data used for the calculation of interest and fee income.*
	• *We evaluated the mathematical formula used for accruing the relevant income over expected life of the loan.*
	• *We have assessed the interest and fee income by building our own expectation on the revenue and compared with the actual results of the Bank.*

Other information – Administrator's Report

6. The administrator is responsible for preparation and presentation of the other information. The other information comprises the Administrator's report which includes the non-financial information declaration, but does not include the separate financial statements and our auditor's report thereon.

   Our opinion on the separate financial statements does not cover the other information and, unless otherwise explicitly mentioned in our report, we do not express any form of assurance conclusion thereon.

   In connection with our audit of the separate financial statements for the year ended December 31, 2018, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

   With respect to the Administrator's report, we read it and report if this has been prepared, in all material respects, in accordance with the provisions of the National Bank of Romania Order no. 27/2010, articles 11-13.

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On the sole basis of the procedures performed within the audit of the separate financial statements, in our opinion:

a) the information included in the administrators' report for the financial year for which the separate financial statements have been prepared is consistent, in all material respects, with these separate financial statements;

b) the administrators' report has been prepared, in all material respects, in accordance with the provisions of the National Bank of Romania Order no. 27/2010, articles 11-13.

Moreover, based on our knowledge and understanding concerning the Bank and its environment gained during the audit on the separate financial statements prepared as at December 31, 2018, we are required to report if we have identified a material misstatement of this Administrator's report. We have nothing to report in this regard.

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

7. Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with IFRS and Order 27/2010 and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

8. In preparing the separate financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

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

10. Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

11. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

12. 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 internal control that we identify during our audit.

13. 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.

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

Report on Other Legal and Regulatory Requirements

15. We have been appointed by the General Assembly of Shareholders on April 5, 2018 to audit the financial statements of OTP Bank Romania S.A. for the financial year ended December 31, 2018. The uninterrupted total duration of our commitment is 15 years, covering the financial years ended December 31, 2004 until the December 31, 2018.

We confirm that:

- Our audit opinion is consistent with the additional report submitted to the Audit Committee of the Bank that we issued the same date we issued and this report. Also, in conducting our audit, we have retained our independence from the audited entity.
- No non-audit services referred to in Article 5 (1) of EU Regulation no.537/2014 were provided.

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

Irina Dobre, Audit Director

For signature, please refer to the original signed Romanian version.

Registered with the Authority for the Public Oversight of the Statutory Audit Activity under number 3344

On behalf of:

DELOITTE AUDIT SRL

Registered with the Authority for the Public Oversight of the Statutory Audit Activity under number 25

Şos. Nicolae Titulescu nr. 4-8, America House, Intrarea de Est,
Etajul 2 - zona Deloitte şi Etajul 3, sector 1,
Bucharest, Romania
April 4, 2019

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OTP Bank Romania S.A.

Annual Report

2018

Corporate Governance

SUPERVISORY BOARD

The Supervisory Board ensures the supervisory function within the Bank, by exercising the permanent control over the Management Board activity and also over its activity of compliance with strategies and policies in force.
The Supervisory Board consists of the Chairman, Vice-Chairman and 4 members.

Antal György Kovács

Chairman of the Supervisory Board

Antal György Kovács graduated from Budapest University of Economics as a certified economist. He started his career in banking in 1990 at K&H Bank Ltd. (KBC Group) where between 1993 and 1995 he worked as Branch Manager.

Antal György Kovács joined OTP Bank Plc. in 1995 as County Director for Somogy County and starting with 1997 he was responsible for Tolna County as well. Between 1998 and 2007 he served as Managing Director of the South-Transdanubian Region of OTP Bank Plc.

Since July 2007, Antal György Kovács is Deputy CEO of the Retail Division of OTP Bank Plc. and exercising professional supervision over the retail business lines of OTP Group's subsidiary banks.

He widened his professional knowledge at the training programs of the International Training Center for Bankers and the World Trade Institute.

Between 2007 and 2012 he was Chairman of the Supervisory Board of OTP Banka Hrvatska and as from December 12, 2012, Antal György Kovács serves as Chairman of the Supervisory Board of OTP Bank Romania S.A.

He is Chairman of the Boards of Directors of OTP Mortgage Bank Ltd. and OTP Building Society Ltd., and Chairman of the Supervisory Boards of OTP Fund Management Ltd. and OTP Mobil Kft. Between 2004 and 2016 he was a member of the Supervisory of Board of OTP Bank Plc. Antal György Kovács is a member of OTP Bank Plc.'s Board of Directors since April 2016.

Judit Hanusovszky

Vice-Chairman of the Supervisory Board

Judit Hanusovszky graduated the Corvinus University of Budapest with the Finance and Corporate Management specialization.

She also obtained a Certificate in Accountancy from Budapest Business School.
Judit Hanusovszky started her career at OTP Bank Hungary in 2003, as a Consultant at Strategic and Finance Division. Between June 2007 and July 2009, she worked first at Citibank, as Financial Head of card business, then became the CFO of Biggeorges Real Estate Financing Co.

She returned to OTP in August 2009 and for 2 years she supported the work of the retail Deputy CEO as a professional assistant. Since September 2012, as the Retail Controlling Director, she is responsible for the Retail Performance Management including the product's and sales channels' performance especially of the branch network, for the headcount capacity management, branch optimization, and development based on profitability model and also for the development of its infrastructure.
Judit Hanusovszky became Member of the Supervisory Board of OTP Bank Romania at the end of 2015, and now she fulfills the Vice-Chairman position.

Tibor László Csonka

Member of the Supervisory Board

Regarding his academic background, in 2002, Tibor László Csonka graduated at Szent István University, Faculty of Economics and Social Sciences, certified agricultural economist.

He joined OTP Bank Hungary in 2002. Initially, he worked as an RM of the Central Hungarian Region in Budapest and after a few months, in 2003, he became a Corporate Customer Relationship Manager at the Corporate Customer Relationship Department. In 2005, he became Corporate Customer Relationships Director of the North – Buda area.

Between April 2007 and September 2008, Tibor László Csonka was the Sales Director of Budapest Region. Between 2008 and 2011 he was the Deputy Managing Director of the South–Transdanubian Region. From April 2011 until 2014, he was the Senior Managing Director of the Micro and Small Enterprises Department in Budapest.

Since May 2014, Tibor László Csonka has been leading the reformulated Small and

Medium Enterprises Directorate with extended responsibilities as a Senior Managing Director. Besides these positions, since 2011, Tibor László Csonka is a member of the Management Board of Merkantil Bank Ltd. and until the end of 2018 a member of the Budapest Chamber of Commerce and Industry. In 2014, he became a member of the Management Board of Garantiqa Credit guarantee Co. Ltd. as well. Tibor László Csonka holds the position of member of the Supervisory Board of OTP Bank Romania S.A. since December 2012.

Dr. Ibolya Rajmonné Veres

Member of the Supervisory Board

Dr. Ibolya Rajmonné Veres joined OTP Bank Hungary in 2007, and since then she is the Head of Retail Consumer Loans. As of 2012, she is a member of the Management Board at Merkantil Bank Zrt., and from October 2016 member of the Management Board of OTP Faktoring Zrt. Prior to that, she was part of the Management Board of CKB, OTP Bank Montenegro in 2009, and Chairman of the Supervisory Board of OTP Mortgage Bank between 2012 and 2014.

She has a Master in Project Management Sciences from Budapest University of Economic Sciences and Public Administration. She got her first degree in Economics at the College of Commerce and Economics, Szolnok. Dr. Ibolya Rajmonné Veres started her career at K&H Bank (a subsidiary of KBC), where she filled different positions in the Retail Division's product development area. In 2003, Dr. Ibolya Rajmonné Veres moved on to Santander Consumer Finance Hungary Zrt. as Managing Director of Sales and Marketing and she was also the Member of the Management Board.

Ildikó Pál-Antal

Member of the Supervisory Board

Ildikó Pál-Antal has been Member of the Supervisory Board and President of the Audit Committee since 2014. She has relevant experience in management and also in the financial audit of several non-banking financial institutions of various sizes.

She graduated the Economic Sciences Faculty - Finance and Accounting Section - at Babeș-Bolyai University of Cluj-Napoca in 1988, had worked for a short period of time in the Romanian banking system, then as chief accountant and economic manager for commercial companies.

In 2001 Ildikó Pál-Antal set up her own company, SC Consulta Carpatica SRL, followed by Transilvania Interconsult IPURL. The companies offer a wide range of services, performing book-keeping and accounting expertise activities, financial audit, tax consultancy, business, and management consultancy.

Ildikó Pál-Antal has obtained several professional qualifications: chartered accountant (1996), financial auditor (2001), insolvency practitioner (2005), tax consultant (2007) and has been an active member of the respective Romanian national professional bodies since her certifications.

Furthermore, she has been a member of the Hungarian Economists' Association in Romania and one of the sponsors of the annual professional conferences held by this organization for over a decade.

Enikő Zsakó

Member of the Supervisory Board

Enikő Zsakó has been Member of the Supervisory Board since December 2007. Between 2004 and 2007 she was Member of the Board of Directors of OTP Bank Romania.

Besides this position, Enikő Zsakó is also a member of the Audit Committee of OTP Bank Russia. She joined OTP Bank Plc. Internal Audit Directorate in 1993. Between 2001 and 2007 she was the Leader of the IT audit area and between 2007 and 2014 the Head of Bank Group Coordination, Analyzing and Methodology Department. In 2014, she was appointed Deputy Managing Director of the Internal Audit Directorate, being responsible especially for the coordination and supervision of the internal audit activities of the OTP group members.

She graduated as Electrical Engineer at the Technical University of Cluj-Napoca in 1985, and as Banking Consultant at the International Banking School in Budapest in 1997.

She obtained a postgraduate degree in Economics at the Budapest Business School, Finance and Accounting College in 2008. She has earned the designation of Certified Internal Auditor conferred by the Institute of Internal Auditors and of Certified Information System Auditor granted by the Information Systems Audit and Control Association. In 2011, Enikő Zsakó was elected chairperson of the Audit Section and in 2014 member of the Supervisory Board of the Hungarian Economic Association.

MANAGEMENT BOARD

The Management Board ensures the management function within the Bank, through the fulfillment of all the necessary and useful actions for the achievement of the Bank's business objectives.

The Management Board implements the Bank's strategies and policies, delegated duties to middle management/permanent committees and overseas the performance of the delegated responsibilities, remaining in charge of the performance of the Bank in front of the Supervisory Board.

The Management Board consists of Chairman, Vice-Chairman and the other members. The Chairman of the Management Board is the Chief Executive Officer.

László Diósi

Chairman of the Management Board and CEO

László Diósi has been Chairman of the Management Board and CEO of OTP Bank Romania since May 2007. Starting with September 2005, László Diósi took over the position of Deputy CEO, Head of the Retail Division, after joining OTP Bank Romania as Retail Project Manager, in May 2005. Between 2006 and 2008, he has also been Member of the Administration Council of OTP Garancia Asigurari S.A.

László Diósi is an experienced professional, with high performances in a wide spectrum of banking areas, such as mortgage banking, financial analysis, training, staff coordination, project management, insurances, finances, accounting, facultative private pension funds, management of investments, negotiations.

In terms of education, László Diósi started at the Semmelweis Medical University. After three years, he attended an IT programming course that apparently decided his future career. Later on, he studied at the Finance and Accounting College and graduated with a specialization in Finance. He continued his studies with a business management course that he attended at Chilterns University College – Open Business School. In 2016 he obtained the Executive MBA degree at University of Reading Henley Business School.

Previous to his coming to Romania, László Diósi held top management or administrative positions in various financial organizations, such as: Chairman of the Board at K&H Pension Fund in Budapest, Hungary (2004-2005); Member of the Administration Council at Argosz Insurance (2004); Chairman of the Supervisory Board at ABN – AMRO Fund Service LTD (2003-2004); Chairman of the Supervisory Board at K&H Asset Management RT (2002), Deputy CEO, Head of Retail Division at K&H Bank, Hungary (2002 - 2004).

Gábor Ljubičić

Vice-Chairman of the Management Board and Deputy CEO, Head of the Retail Banking Division

Gábor Ljubičić has been Deputy CEO of OTP Bank Romania and Head of the Retail Banking Division since 2007. He is also Vice-Chairman of the Management Board at OTP Bank Romania since 2012.

Gábor Ljubičić has a prosperous career with OTP Group. He joined the Bank in 1986 and held several positions. Starting with 1997 he led the projects for digital banking services and later became the Head of the Electronic Services Directorate. Between 2001 and 2007, he occupied various managerial positions at OTP Bank Plc., as Deputy Executive Director for Banking Group and Branch Network Directorate, Executive Director at Downtown Region and Deputy Executive Director for Northern Hungary Region.

Besides these positions, Gábor Ljubičić had other professional assignments, such as: Member of the Board at OTP Mortgage Bank (2003-2007), Member of the Supervisory Board

at OTP Asset Management Romania SAI S.A. since 2008 and Member of the Board of Right for Education Foundation since 2014. Regarding his academic background, Gábor Ljubičić graduated from the College of Finance and Accountancy, Faculty of Banking, in 1993. He also obtained a Master of Business Administration degree from Corvinus University in 2007 and from Henley Business School in 2017.

György Gáldi

Member of the Management Board and Deputy CEO, Head of Lending and Risk Management Division

György Gáldi has been Head of Lending and Risk Management Division at OTP Bank Romania, since January 2012 and Deputy CEO and Member of the Management Board of OTP Bank Romania, since August 2012. He has an engineering and economist academic background and collected three diplomas of Budapest University of Technology and Budapest University of Economics. Beyond such, he completed several courses among others at several short-term courses at Oxford University, Institute for Management Development Lausanne (1992), Institute for Public-Private Partnerships Washington D.C.

Based on such learning and accumulated professional experience, he has been acting as lecturer of various universities and colleges, focusing mainly on risk management topics and structured and project finance related subjects. He has also participated as speaker, mainly on the same themes, at several Hungarian, European and North-American business forums/conferences since 1994, making studies, publications, also concerning these topics.

In terms of professional experience, György Gáldi started as a researcher at Budapest University of Technology, followed by a period when he worked as adviser within the Ministry of Transport Communication and Water Management.

He started his banking career at K&H Bank Structured and Project Finance area, as Unit Head (1993) and becoming Executive Director (2001), being responsible for a large number of cash-flow based transactions in various sectors (e.g. energy/ power, telecommunications, transport, utilities, real estate, etc.) and industrial production. Between 2005 and 2007, the responsibility was extended also for the large corporate relationship management, as well acting as Senior Executive Director. Afterwards, he became Executive Director of MKB Bank Zrt., being responsible for Structured, Real Estate and Project Financing's risk management in 2007 and becoming Chief Risk Officer in October 2008. From April 2009 he was also Deputy CEO and Member of Board of Directors. He acted as Chairman of the bank's central credit committee during 39 months and as member of several other decision making and steering committees, for a longer period of time. He has also fulfilled membership in Board of Directors and in Supervisory Board in various companies since 1994, which are active mainly on various infrastructure/service industry/financing sub-sectors.

György Gáldi is in charge among others of (i) intensification of the group-wide collection activities of the OTP Bank in Romania; (ii) the adoption of the risk handling practice best matching time to time developments of the business activity; (iii) introduction of business standards assuring the largest efficiency of the applied risk handling technics and practices.

Dragoş Ioan Mirică

Member of the Management Board and Deputy CEO, Head of Corporate Banking Division

Dragoş Ioan Mirică has been Member of the Management Board and Deputy CEO, Corporate Banking since February 2013. Starting with 2008, he took the assignment to manage the activity of the corporate business line, after joining OTP Bank Romania as Director of Large Corporate Directorate, in May 2006.

Dragoş Ioan Mirică is a highly skilled financial professional with extensive experience in banking and financial institutions, negotiations, business and people management, analytical budgeting activity and financial appraisal, he employs excellent planning skills to ensure consistent, continuous and efficient operations.

Regarding his educational background, Dragoş Ioan Mirică graduated the University Pierre Mendes, Grenoble, France, in 1993 having his Bachelor degree in Business Administration. In 1996, he also graduated the Academy of Economic Studies, Bucharest, the Faculty of Economic Studies in Foreign Languages, French Department, obtaining his Bachelor's Degree in Business Administration, Finance and Banking. During his career, Dragoş Ioan Mirică held senior administrative and professional positions in several banks acting in Romania, such as UniCredit Bank and BRD - Société Générale and he was involved in advisory business as well.

Mara Cristea

Member of the Management Board and Deputy CEO, Head of Finance and Planning Division

Mara Cristea has been a Member of the Management Board and Deputy CEO, Head of Finance and Planning Division of OTP Bank Romania S.A. since October 2016.

Mara Cristea is a highly skilled professional with vast knowledge in the financial and banking area, especially in the strategic planning and controlling, regulatory reporting and accounting. Proactive, assertive, team-player and detail-oriented are some of the main characteristics that describe her personality.

Regarding her professional life, Mara Cristea has a long banking career. She started as an accountant at Elisabeta Palace in 1990, followed by a long and full of achievements career in the banking domain.

Her banking journey began in the first established private bank in Romania, namely Banca Comercială "Ion Țiriac". In April 2006 she took over the position as Director of Financial Accounting Division at Volksbank Romania S.A. and afterwards, starting July 2015, joined OTP Bank Romania S.A. as Director of Accounting. In terms of academic background, Mara Cristea is a graduate of the Romanian – American University in Bucharest, Romania, with a degree in Finance and Banking. She is also a member of the Chamber of Fiscal Consultants in Romania since 2007 and a member of the Chamber of Financial Auditors in Romania since 2010.

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Compliance Function

Compliance Function

The compliance function is one of the three independent control functions within OTP Bank Romania and, during 2018, it was ensured by the Compliance Directorate.

The Compliance Directorate is functionally subordinated to OTP Bank Romania's CEO and its independence is guaranteed by its direct reporting line to OTP Bank Romania's Supervisory Board. At the same time, it also reports to the Audit Committee and the Risk Administration Committee.

The Compliance Directorate also comprises the Personal Data Protection Area. This is led by the responsible with Data Protection (DPO – Data Protection Officer). In this respect, DPO reports administratively to the Director of the Compliance Directorate and functionally to Management Board and to Supervisory Board.

The main roles fulfilled by the compliance function within the bank are:

- Manages the compliance risk following the identification and assessment of this risk in order to maintain an acceptable level, according to the Bank's strategy;
- Reports on compliance risk calculated based on compliance risk indicators applicable to all specific area, to OBR management and OTPH;
- Provides consultancy to the Bank management regarding the provisions of the legal and regulatory framework, but also regarding the ethical standards which must be applied within the banking activities;
- Verifies, through monitoring and control, the application of the relevant policies and procedures, in order to ensure the Bank's ongoing compliance with the legal and regulatory framework regarding general compliance and KYC&AML/CFT issues and recommends improvement measures and corrective actions both punctual and at the bank level (processes/ workflows at Bank's level) in order to increase the achievement of this goal and to manage/ mitigate the compliance risk;
- Verifies if products/ services and internal regulations comply with the regulatory framework in force, including agreements, recommended practices or ethical standards for banking activities;
- Ensures that the measures assumed within the Actions Plans issued following the Supervisory Authority (NBR) controls, specific to each managed activity, are implemented fully and within the deadlines;
- Develops, assists in the development, implements, and monitors appropriate policies, procedures and other documents such as compliance policy, internal code of ethics and practical guides for OTP Bank Romania SA staff in order to ensure the Bank's ongoing compliance with the specific legal and regulatory framework and internal regulations;
- Issues compliance training materials and tests in order to develop the compliance organizational culture;
- Actively participates on behalf of OTP Bank Romania S.A. within the specialized committees of the Romanian Banking Association (ARB) and other committees or other organizational structures which analyze developments in the regulatory framework with impact on compliance;
- Communicates with the Supervisory Authority and other authorities in order to perform its specific duties;
- Provides, through Data Protection Area, guidance, coordinates, controls and monitors the unitary application of the legislation on the protection of individuals regarding the processing of personal data and the free circulation of such data within the bank.

The fundamental principles of compliance, but also the main line of compliance activities are defined in the Compliance Policy of OTP Bank Romania with the purpose of collectively defining, facilitating and supporting the appropriate, legal, secure and prudent functioning of the Bank. The Compliance Directorate ensures, through Data Protection Area, the mission to develop an organizational culture designed to ensure respect for the fundamental right of personal data protection within the bank.

Based on the Compliance Policy, also including personal data protection provisions, the Bank has developed its regulations and established the necessary tools for implementing the policy, taking into account the complexity of the bank's business and size, the applicable national, European and international regulations, as well as the policy of the group the Bank is part of. Regarding personal data protection, it is clearly stipulated that failure to comply with the Personal Data Privacy Policy may result in the rights of the data subject being impaired, as well as in significant financial and reputational losses for OTP BANK ROMANIA SA and possibly disciplinary consequences for the responsible employees of the bank.

Compliance Directorate manages the Bank's Code of Ethics, which sets out the values, principles, and rules based on which management, and all employees act and perform their tasks, contributing to the achievement of business objectives.

The general principles underlying the Code of Ethics reflect the standards of corporate governance, values of moral and professional integrity, good business relations based on the sharing of common values and rules of conduct governing human relations, compliance with specific banking legislation, avoidance and combating conflicts of interest and corruption, keeping of confidentiality, transparency and prudence in the course of the activities carried out.

The Bank has implemented an appropriate channel for communication (whistleblowing) to facilitate reporting of inappropriate behavior that may arise in connection with Bank's customers, suppliers or staff and to encourage the submitting with the good faith of any non-compliance with the Code of Ethics situation.

In order to prevent conflicts of interest, the Bank has implemented mechanisms to identify, monitor and manage situations that may cause potential conflicts of interest by analyzing areas of potential risk - personal recruitment, family relationships, participation in companies, suppliers - including procedures that provide barriers to information flow and adequate separation of employees' duties.

OTP Bank Romania is committed to complying in permanence with the legal requirements for preventing money laundering and terrorism financing.

In order to comply with the legislation applicable regarding anti-money laundering and anti-terrorism financing, OTP Bank Romania S.A. implemented clear internal procedures for establishing the real beneficiary of the funds' source and implemented systems for the detection of suspicious transactions.

Compliance Directorate provides consultancy to the territorial units and to the structures in the headquarters for matters related to the prevention and combatting of money laundering and terrorist financing, know your customer and international sanctions.

In order to comply with the international sanctions, the Bank screens the customers' database and transactions against sanctions/embargo lists.

The development and supervision of the money laundering prevention program is a responsibility of the Compliance Directorate, but all Bank's employees, especially those in business areas, are also responsible as a part of the first line of defense.

To ensure efficient customer due diligence process, the Bank uses a risk-based approach.

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Corporate Social Responsibility

Corporate Social Responsibility

CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility is a business philosophy within OTP Bank as it influences the decisions we make in many aspects of our company's life. We always keep in mind the social and environmental impact when it comes to our business operations and the interactions with our stakeholders.
Sustainable development meets the present needs without compromising the ability of future generations to satisfy their own needs. Sustainable development implies economic growth, together with the protection of society and of environmental quality.
The most efficient method of development is investing in education, which is already proven in many nations. Nowadays, we are all aware that lifelong learning is not just a saying, but it has become a daily necessity. Without consistent education, neither the survival of business nor its development can be guaranteed.

HIGHLIGHTS FROM OUR 2018 ACTIVITY

Right to Education Foundation

OTP Bank Romania aims to contribute to the development of responsible and healthy financial behavior among the young generation, the Right to Education Foundation being the institution that coordinates and implements the financial education activities of the Bank.

The Foundation's mission is to train, free of charge, as many pupils as possible, with the target group consisting of pupils from all over the country aged 10 to 19 years. In 2018 we continued this mission, our trainers reaching 35 cities, municipalities and settlements in the country to deliver financial education courses for youngsters.

In 2018, the Foundation has signed partnerships with 57 public and private schools at a national level.

As for the Foundation's activities as OTP Bank's main CSR project, respectively reaching a target of 4,000 youngsters trained nationwide, we mention:

In 2018, the Foundation's trainers implemented 337 training sessions at national level (125 training sessions in Bucharest and 212 training sessions outside Bucharest, namely in: Pucioasa, Târgoviște, Satu Mare, Aiud, Curtea de Argeș, Vălenii de Munte, Deva, Zalău, Râmnicu Vâlcea, Tulcea, Slobozia, Bistrița, Constanța, Oltenița, Drobeta Turnu-Severin, Panciu, Baia Mare, Sibiu, Potcoava, Praid, Focșani, Urlați, Hemeiuș, Oradea, Buzău, Șuletea, Tg. Mureș, Corbasca, Marvila, Ștefești, Ploiești, Bacău, Sohatu și Nedelea).

Thus, the trainers have implemented

educational programs for youngsters living in 24 counties across the country. In 8 of these counties, the trainers have implemented the Foundation's programs for the first time since the Foundation's official launch in October 2014. At the end of 2018, a total of 4.677 youngsters took part in these training sessions, namely: 4.449 pupils took part in our financial education programs, while 228 pupils took part in our career orientation training programs.

2018 also marked the first mention of OTP Bank's CSR efforts in an international context. During the month of March, the Foundation took part in the Global Money Week event by organizing and implementing financial education training sessions for 280 youngsters in Bucharest (at OK Center) and in Deva. During the Global Money Week 2018 edition, the Right to Education Foundation received the special award for its involvement in the financial education domain. The prize was awarded by the Financial Supervisory Authority during the Edu Fin Awards Gala 2018 edition.

Among the main objectives set for 2018, one of them consisted in attracting as many school institutions as possible in OK Center, the first non-formal financial education center in Romania, opened in 2017.

By the end of 2018, 22 schools in Bucharest have opted to organize financial education and/or career training programs for their pupils at OK Center instead of using a designated training space provided by the school. Thus, out of the total 1580 trained pupils in Bucharest in 2018, 1.152 of them have participated at training sessions held in OK Center, which means that 72,9% of all trainees from Bucharest have benefited from an alternative learning experience outside the school in which they are currently enrolled.

OTP Financial Fitness – Financial education starts with us

The financial education program called Financial Fitness fills up the educational content of the Right to Education Foundation. In addition to the already existing ones (financial education for children and teenagers and career guidance), adults now have the opportunity to get familiar with specific concepts of personal finance aiming to help them acquire a responsible financial attitude.

2018 was an important year for OTP Financial Fitness, not only for the official launch of the program on 5th of October, when OK Center celebrated its first anniversary, but also because it offered the possibility to test and permanently adapt the content, structure and the frequency of the sessions, according to the needs of the interested ones.

We had the chance to test many program versions with different content structures adapted as requested. We targeted different categories of participants, among them being businessmen, journalists, school and high school teachers, students, fundraisers, and NGOs representatives, etc.

The Financial Fitness sessions were attended by 839 persons. The first beneficiaries of the program were those working within OTP Group, the courses being attended by 465 colleagues both in the bank (Head office and retail network) and also from subsidiaries (OTP Advisors, OTP Leasing, OTP Consulting). All of them were interested in finding out methods and instruments that could be used to get a responsible financial behavior.

Financial Fitness trainers visited 24 cities in the country, a number of 139 financial education sessions being organized.

One of the strategic directions of our program was the “Cities” project, Financial Fitness sessions being an important component of a marketing initiative with to goal to increase the awareness of the retail network branches within their local communities. With the support of the branch managers from 13 cities (Deva, Zalău, Focșani, Tulcea, Suceava, Baia Mare, Râmnicu Vâlcea, Slobozia, Călărași, Târgoviște, Botoșani, Sibiu și Bistrița), the sessions were attended by 180 participants.

"The Urban Summer" Project

“Urban Summer” is a program initiated by OTP Bank Romania with the support of the Right to Education Foundation, held at the OK Center in July-August 2018. The program’s goal was to give the companies' employees the opportunity to enroll their children in a free educational and interactive program during the summer holidays in time of parents' working program. Thus, the parents knew that the little ones were in a safe place, with an environment according to their age, during the period which they were at the office.

Children aged 6 to 18 years could be enrolled in the program.

Thus, from July to August, all parents working in Bucharest branches of OTP Bank Romania had the opportunity to leave their children at the OK Center from Monday to Friday (excluding public holidays), between 8:00 and 18:30, to take part in activities under the „Urban Summer" program. Participation in the program was free of charge, enrollment based, and parents had the choice if they wanted to sign up for a few days, weeks, a whole month or for both months of the program. The average participation in the program was 20 children/day.

OK Center

The objective of the OK Center is to encourage the organic development of the urban society in Bucharest and not only through a learning approach from the individual to the community, with a focus on financial management. Also, through this project, OTP Bank Romania aims to encourage a financially responsible attitude among young people in Romania. The OK Center trainers help create an interactive learning environment that allows learners to immediately apply practical concepts such as planning, risk, strategic thinking and more.

In 2018, OK Center hosted over 1.000 events in NGOs, start-up, education, entrepreneurship, art, freelancing.
Approximately 20.000 people, entrepreneurs,

representatives of the non-governmental sector benefited from the OK Center space to organize their work meetings, projects, events, training or conferences. Of those 20.000 people, 1.500 participants took part in the financial education courses.

In 2019, we have set the following objectives:

- Implementing our financial education and career orientation training programs in 19 counties across the country;
- Developing our partner`s network by signing partnerships with 22 new schools and also maintaining close contact with our current educational partners;
- Reaching a number of 2.500 trainees out of which 2.100 are predicted to take part in our financial education training program, while 400 of youngsters are expected to take part in our career orientation training program;
- Taking part in outdoor events and summer camps during the Summer;
- Organizing another edition of the Global Money Week event in OK Center in partnership with the Ilfov County School Inspectorate;
- Completing a study on the financial behavior of adolescents across the country, which we started conducting in 2018;
- Including as many categories of individuals as possible in the Financial Fitness training program: OTP Bank employees and subsidiaries, external clients which will take part in this program (employee benefit);
- Diversifying the content by developing new online learning modules which come as completion in a current educational offer and also, which will offer all those interested the possibility of accessing this program from right in front of their computers, smartphones or tablets;
- Developing of financial education programs dedicated to certain types of socio-professional categories (students, retirees, athletes, etc.) so that each of these categories should find information of personal interest in the field of personal finance according to their priorities specific to their age and field of activity;
- Exploring new partnership opportunities with other NGOs and/or Universities.

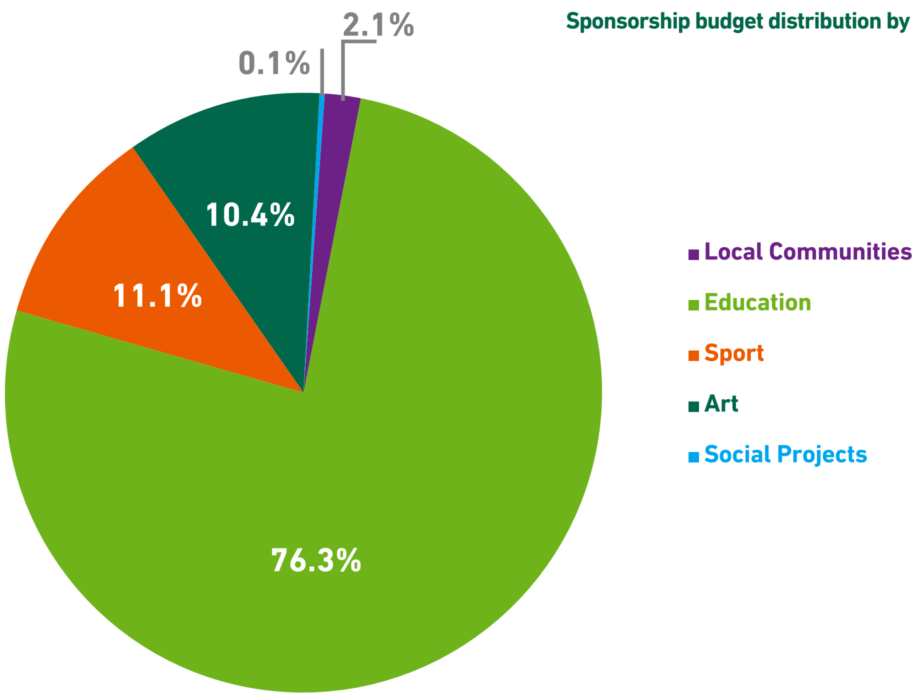
Sponsorship activity

In 2018, the Bank has updated its sponsorship policy and created a clearer and more objective communication of the approval process. At the same time, key policy areas remained unchanged in 2018, so sponsorship initiatives are being developed and implemented under the umbrella of CSR, based on three main directions:

- **OTP Equal Opportunity Program:** we support disadvantaged groups who need to overcome a drawback – mental or physical handicap, lacking resources to obtain a proper education and also children and youth organizations. We aim to help these groups by improving their life quality and by integrating them in society;
- **OTP Community:** we support events, programs that strengthen communities and contribute to the preservation of cultural heritage and further cultural development;
- **OTP Sports Program:** we promote sports organizations, competitions and leisure activities that require physical and mental stamina, concentration, tactical skills, and finely tuned teamwork.

In 2018, OTP Bank Romania sponsored the activities of 42 associations in various fields: art (10.4%), education (76.3%), sport (11.1%), local community development (2.1%) and social projects (0.1%).

Sponsorship budget distribution by sponsorship type:



The three most important fields of sponsorship were art and culture, education and sports, where we strengthen our long-term relationships.

The main organizations and projects supported in 2018 were:

- **Right to Education Foundation:** support of the maintenance, daily activity of the foundation and OK Center launch;
- **Cărturești Foundation - Street Delivery,** where OTP Bank Romania had community-level visibility of over 50,000 people and was present with an OK Center lounge area and an HR Corner;
- **Szigligeti Tanoda Association** - OTP Bank Romania sponsored the theater in 2018, having exposure on all the channels of promotion of the season: ATL, BTL, TTL;
- **Sepsi OSK Club Association,** Sponsoring the Sepsi OSK football team, a player in the first league in Romania.

OTP Community

OTP Community is an internal volunteer program initiated by OTP Bank Romania in October 2016 dedicated to employees who want to leave their mark on the local community and to contribute to the implementation of the financial education activities of the Right to Education Foundation, established by OTP Bank in 2014.

The main objective of the OTP Community is to support the education of children from disadvantaged areas and to prevent school dropout.

In 2018, OTP Community volunteers contributed to the local community by:

- Internal fundraising actions: three thematic fairs where the producers and buyers are employees of OTP Bank Romania;
- 1 day trip to Bucharest for 45 children from Vrancea County (Motnău and Dumitreștii Față);
- Participation in two editions of the Bucharest Marathon, where 28 volunteers ran for the ATCA Association. The funds raised on Galantom.ro reached 2,220 lei for 20 beneficiaries;
- Letters for Santa Claus within the Vodafone Romania campaign - 56 gifts purchased by OTP Bank Romania employees;
- 115 schoolbags purchased by OTP Bank Romania employees for Edulier Association "Back to school 2018" campaign;
- Basic food donation and 15 computers to the Rainbow Foundation in Filipișu Mare, Mureș County, for the 50 children in their care;
- Fundraising program within the 2% donation campaign, where 5 NGOs benefited from the support of 25 OTP Bank employees;
- Blood donation sessions in the office - in 2018, OTP Bank Romania organized 4 sessions with over 30 eligible participants
  in each session. The amount of blood collected from a person (450 ml) helps save 3 lives; so in 2018, OTP Bank employees helped save 360 lives.

245 employees of the company were OTP Community volunteers in 2018.

The total number of direct beneficiaries of OTP Community projects is over 600 people.

OTP Bank Romania S.A.
66-68 Buzesti St. 1, Bucharest, 011017 Romania
Phone: +40(21) 307 57 00 Fax: +40(21) 308 51 80
Call Center: 0800 88 22 88
E-mail: office@otpbank.ro
Internet: www.otpbank.ro